

China: Non-capitalist Market Economy or Neoliberalism with Chinese Characteristics

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ABSTRACT

Neoliberalism became a mainstream concept in the field of international political economy for more than forty years. Starting from the 1970s, Western countries and later the rest of the world started to question the role of the state in the market. As a result, under the new ideas of neoliberalism, governments transformed from providers of public welfare into promoters of the free market and competition among individuals. Under neoliberalism, we are living in the world of free market and liberalization of trade and capital. Neoliberalism is associated with the Western countries and their ideology of democracy and freedom. Thus, the economic model of China that has experienced a spectacular growth after the 1990s was considered by a number of scholars as a more egalitarian and humane alternative to the Anglo-Saxon model of capitalism. The aim of the thesis is to analyze Chinese development path and compare it with the development path of the neoliberal model peculiar to the Western countries. The main hypothesis of the thesis is that the economic model implemented in China cannot be considered as an alternative to neoliberalism. The Chinese government implemented a number of neoliberal principles and ideas in order to achieve economic development and become part of the international economy. Thus, China did not create an alternative development model to Western neoliberalism. The main argument of this thesis is that Chinese development strategy should be understood as “neoliberalism with Chinese characteristics”.

Keywords: Neoliberalism, Washington Consensus, China, Beijing Consensus, Globalization

ÖZ

Neoliberalizm, kırk yıldan fazla bir süredir uluslararası politik ekonomi alanında temel kavram haline geldi. 1970'lerden başlayarak, Batılı ülkeler ve dünyanın geri kalanı devletin piyasadaki rolünü sorgulamaya başladı. Sonuç olarak, neoliberalizmin yeni fikirleri çerçevesinde devletler kamu refahının sağlayıcısı kurumlardan serbest piyasayı ve bireyler arasında rekabeti destekleyen kurumlara dönüşmüştür. Neoliberalizm altında serbest piyasa ve ticaretin ve sermayenin serbestleştiği bir dünyada yaşıyoruz. Neoliberalizm, Batı ülkeleriyle ve onların demokrasi ve özgürlük ideolojileriyle bağlantılandırılmıştır. Bu nedenle 1990lardan sonra muazzam bir büyüme yakalayan Çin Halk Cumhuriyeti'nin uyguladığı ekonomik model, muhtelif araştırmacılar tarafından Anglo-Saxon kapitalizm modeline daha eşitlikçi ve insani bir alternatif olarak görülmüştür. Bu tezin amacı, Çin'in izlediği kalkınma rotasını Batı ülkelerine özgü neoliberal kalkınma rotasıyla karşılaştırmaktır. Tezin temel hipotezi, Çin'de uygulanan ekonomik modelin neoliberalizme bir alternatif olarak görülemeyeceğidir. Çin hükümeti, ekonomik kalkınmayı sağlamak ve uluslararası ekonominin bir parçası olmak için muhtelif neoliberal prensipler ve fikirler uygulamıştır. Dolayısıyla, Çin, Batı neoliberalizmine alternatif bir gelişme modeli oluşturmadı. Bu tezin temel argümanı, Çin'deki kalkınma stratejisinin “Çin'e ait özelliklerle belirlenen bir neoliberalizm” olarak anlaşılması gerektiğidir.

Anahtar Kelimeler: Neoliberalizm, Washington Konsensüsü, Çin, Pekin Konsensüsü, Küreselleşme

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TABLE OF CONTENTS

ABSTRACT	iii
ÖZ	iv
ACKNOWLEDGMENT	v
1 INTRODUCTION.....	1
1.1 Statement of the Research Problem	1
1.2 Research Question	3
1.3 Significance of the Study	3
1.4 Limitations of the Study	3
1.5 Theoretical Framework	3
1.5.1 What is Globalization?.....	4
1.5.2 Hyperglobalist.....	5
1.5.3 Skeptical School of Thoughts.....	6
1.5.4 Transformationalist View of Globalization.....	7
1.6 Research Methodology	9
1.7 Literature Review.....	9
1.8 Structure of the Thesis	11
2 THEORETICAL FRAMEWORK.....	13
2.1 Classical Liberalism	13
2.2 Neoliberalism.....	15
2.3 Washington Consensus.....	19
2.3.1 Critics of the Washington Consensus	22
2.4 Does the Economic Model in China Represent an Alternative to Neoliberalism?	24

2.4.1 China is a Non-Capitalist Market Economy.....	24
2.4.2 Neoliberalism with Chinese Characteristics.....	27
2.5 Conclusion.....	32
3 CHINA UNDER THE COMMUNIST PARTY AND MAO’S LEADERSHIP. 1949-1976.....	34
3.1 Republic of China.....	34
3.1.1 Civil War (1927-1949).....	35
3.2 People’s Republic of China.....	36
3.2.1 Hundred Flowers Campaign.....	38
3.2.2 Great Leap Forward.....	39
3.3 Reforms.....	40
3.3.1 Reforms of Liu Shaoqi and Deng Xiaoping (1961).....	41
3.3.2 Sino-Soviet Split.....	42
3.4 Cultural Revolution.....	44
3.4.1 Sino-American Relation.....	48
3.5 Conclusion.....	51
4 ECONOMIC REFORMS OF DENG XIAOPING, SOCIALISM WITH CHINESE CHARACTERISTICS. 1978-1992.....	53
4.1 Return to Power.....	53
4.2 Four Modernizations.....	55
4.2.1 Agriculture.....	55
4.2.2 Industry.....	58
4.2.2.1 Individual Household Enterprises.....	58
4.2.2.2 Special Economic Zones.....	59
4.2.3 National Defense.....	61

4.2.4 Science and Technology.....	62
4.2.4.1 Education.....	62
4.2.4.2 Technology.....	64
4.3 Tiananmen Square Protest.....	65
4.4 Retirement.....	67
4.5 Conclusion.....	68
5 CHINA UNDER THREE GENERATIONS OF GOVERNMENT. 1992-2017	70
5.1 Jiang Zemin Leadership (1992- 2002)	70
5.1.1 Financial Reforms.....	71
5.1.2 Political Reforms	73
5.1.3 International Relations	74
5.1.3.1 WTO.....	74
5.1.3.2 Hong Kong	75
5.1.3.3 Macau.....	76
5.2 Hu Jintao (2002-2012).....	77
5.2.1 New Ideology.....	78
5.2.2 Economic Changes.....	79
5.3 Xi Jinping (2012)	81
5.3.1 Ideology.....	82
5.3.2 Political Reforms	82
5.3.3 Economic Reforms.....	84
5.3.3.1 Anti-corruption Campaign	86
5.3.4 Foreign Policy.....	87
5.3.5 Belt and Road Initiative.....	87
5.4 Conclusion	90

6 ANALYSIS	92
7 CONCLUSION.....	106
REFERENCES	111

Chapter 1

INTRODUCTION

From the beginning of economic reforms in the 1980s, China transformed from the agrarian society to the industrial country. China became one of the main actors in the international arena and the second biggest economy in the world. The International Monetary Fund estimated that China can overtake the US and become the world's largest economy by 2030 (IMF, 2018, pp. 5-20). Thus, China became an interesting topic for debate among scholars and analytics. On the one hand, some argued that China represents a new model of development for other developing countries. Others argue that Chinese development should not be considered as a completely new model, because in the way of its development China incorporated elements of existing neoliberal principles. Thus, the success of Chinese economic development is a result of the incorporation of these neoliberal elements.

1.1 Statement of the Research Problem

The purpose of this research is to analyze Chinese rapid economic development and its effect on the current neoliberal world order. In September 2013, Xi Jinping, the current leader of the People's Republic of China (PRC) visited Kazakhstan, where he called for the creation of the "Silk Road Economic Belt" project. The goal of this project was to increase cooperation between China and neighboring countries. In October of the same year, Xi visited Indonesia where he declared about the creation of the Asian Infrastructure Investment Bank (AIDB) and the construction of the "21st Century Maritime Silk Road". In November two proposals were merged into the "Belt

and Road Initiative” (BRI) and accepted by the party leadership as the key policy priority before 2020 (Yiping, 2016, p. 314). Under the BRI China is financing infrastructural projects in more than 60 countries in Europe, Asia, and Africa. Financing of the projects entails lending to the sovereign borrowers. Thus, China is investing eight trillion dollars for the creation of transportation, telecommunications, and energy networks in these countries and linking Europe, Asia and Africa (Hurley, Morris, & Portelance, 2018, pp. 1-2). Other than connecting regions, the BRI is focused on the improvement of trade, investment, and financial cooperation, and cultural and social exchange among these countries. The BRI is considered as the major, unprecedented infrastructural project. First, because of the scope of the BRI, it contains a large number of countries from three regions. Second, the BRI has an institutional framework, which consists of the Asian Infrastructure Investment Bank (AIIB), the New Development Bank and Silk and Road Fund (SRF). These institutions can be seen as an alternative to the Western financial institutions, such as IMF and World Bank (WB). The difference between two institutional frameworks is that for the low- income countries borrowing procedure from the BRI institutions is easier than from the IMF and WB (Hui, Rohr, Hafner, & Knack, 2018, pp. 1-4). Chinese rapid economic development and its influential BRI projects led to the debates about whether China is emerging as an alternative to the Western-led neoliberalism, or its successful development is a result of the implementation of neoliberal policies. In order to analyze the economic development of China and its possible effects on the current world order, I aim to analyze Chinese economic development history and compare changes with the neoliberal principles.

1.2 Research Question

Research Question: How can we define Chinese development path? Does the rise of China represent a new development model, an alternative to the neoliberalism?

Hypothesis: The rise of China does not represent an alternative to the Washington Consensus. The rise of China can be defined as neoliberalism with Chinese characteristics.

1.3 Significance of the Study

In recent years China became an important actor in international relations. According to the IMF, China can replace the USA as the largest economy by 2030. This research is significant because it provides critical literature about the economic rise of China. The research consists of the detailed analysis of the transformation of economics, politics and foreign policy of China since its creation.

1.4 Limitations of the Study

The research will focus on the transformations within the People's Republic of China. Thus, the timeline for the analysis will be from 1949, the establishment of the PRC, till the present day. The hypothesis will be proven if as a result of the research it will be possible to identify that despite some difference in the strategy overall Chinese reforms and regulations suit the neoliberal concept of the free market.

1.5 Theoretical Framework

One of the main reasons for the Chinese economic miracle is its entrance to international trade, membership in the international institutions and Foreign Direct Investments (FDIs). Thus, in order to analyze the Chinese development model, it is important to understand globalization and its impact on states.

1.5.1 What is Globalization?

In the twenty-first century, term globalization can be applied in almost every sphere of life. It is difficult to create the unified meaning of globalization because it can be defined in a different way according to the different spheres of analysis. As it was written by Held, McGrew, Goldblatt, and Perraton, globalization is a process that transforms the organization of social relations in terms of their extensity, intensity, and velocity. The process of transformation generates international activity and interaction (Held et al., 1999, p. 16). Despite the fact that there is no exact, unified definition of the term, a number of scholars wrote their understanding of what the globalization means. Thus, Jan Aart Scholte identified globalization in five different ways. First, globalization as internationalization, due to cross-border relations between states. Second, liberalization is a feature of globalization. In this context, the government is limiting its role and individuals, companies and corporations are liberated for a free movement, transactions etc. A third way to define globalization is universalization. This can be understood as the universalization of some ideas, values, and objects. Fourth, globalization can be understood as a process of modernization. In this case, he refers to the ideas of capitalism, industrialization and other Western-led notions as modernization, which is influencing other countries. The last feature of globalization according to Scholte is deterritorialization, meaning that today everything is interconnected and changes in one part of the world can affect countries in a completely different region. Thus, the concept of state borders is changing to the feeling of supraterritoriality (Scholte, 2005, pp. 44-46).

D. Held, McGrew et al classified different perceptions of globalization theory into three schools of thoughts: hyperglobalist, skeptics and transformationalist.

1.5.2 Hyperglobalist

According to Held and his colleagues, hyperglobalists argue that the process of globalization will result with the new world order, which is global governance with international institutions as the main actors, whereas nation-state concept will lose its relevance. Based on this argument, currently, individuals, as well as countries, are benefiting from the open market and free trade, thus becoming interdependent on each other. Governments are more interested in cooperation rather than conflicts, and in order to regulate the process of cooperation, they are supporting the creation of international institutions. In this case, because of the fundamental ideas of neoliberal laissez-faire, governments are gradually limiting their power, and borders have only nominal importance, whereas the international institutions regulate global market and process of international trade (Held et al, 1999). Hyperglobalists believe that the era of global governance will be more successful than the world order with nation-states as the main actors. They argue that interdependence of states will lower the possibility of war, the importance of military and in contrast, it will increase the economic prosperity of the international community. In this case, one of the well-known hyperglobalists, Kenichi Ohmae (1999) suggested that due to globalization government will limit its power to the level of creating conditions for citizens and companies to succeed in the global market, as well as providing infrastructure, such as legal system, inside of the country (pp. 216-217).

Susan Strange, John Stopford and John Henley in their analysis of the world market underlined the rising power of firms and corporations. They argue that firms and industries became an important part of a country's wealth and the majority of industries are focused on the international market. While the government is interested in economic competition with other countries, it has to create a national legislature by

taking into account the needs of certain industries and firms. Thus, they believe that governments are still needed, but now they are not the most important actors in the international arena (Stopford, Strange, & Henley, 1998, pp. 90-97).

1.5.3 Skeptical School of Thoughts

Skeptics contradict hyperglobalist argument, arguing that the globalization is not a phenomenon, which can lead to a new era. In their view, the current period of globalization will not create global governance, rather this process will lead to the regionalization of trade where states are still the main actors. Thus, for instance, European countries have most of the trade and financial relations within the EU. The same pattern can be seen in North America and East Asian countries (Gilpin, 2001, pp. 292-293). According to Kenneth Waltz, the concept of globalization is exaggerated, because in practice most of the developing and least developed countries are not part of this process of globalization. Thus, meaning that globalization mainly refers to the developed countries and cannot be considered as a global process. In addition, Waltz argues that while globalization means integration of states and transformation of the world into one big state, instead current international politics led to the increasing cooperation of states because of the globalization, but the states are still decisive actors in this process (Waltz, 1999, p. 698). According to the importance of industries and corporation in the international market, Hirst and Thomson analyzed that there is a small number of transnational corporations and their influence is exaggerated by the hyperglobalists (Hirst & Thompson, 1999, pp. 195-196). In general, skeptics are critical about hyperglobalist's idea of the globalization as a new era. First, they argue that globalization is not something new, but the current situation is different only because the process of globalization became more intense. Second, current international relations cannot be considered as globalization, because in reality,

it is leading to the regionalization and division of countries into blocks. Third, despite the increasing cooperation, states are still the main actors in global politics (Tadic, 2006, pp. 176-178).

1.5.4 Transformationalist View of Globalization

Keiko Yokoyama argues that there are two main differences between transformationalists from hyperglobalists and skeptics. First, the transformationalist's analysis includes social, political and economic dimensions, whereas skeptics and hyperglobalists are concentrated on economics only. Secondly, transformationalists analyze changes in the nature of the nation-states, whereas skeptics and hyperglobalists analyzed changes in the power of the states (Yokoyama, 2010, pp. 149-150). Thus, transformationalists oppose the ideas of hyperglobalists that globalization leads to the end of the sovereign nation-states, as well as skeptic's view that the globalization did not affect the sovereignty of the states (Negash, 2015, p. 88). Transformationalists argue that the process of globalization cannot be analyzed as a one-way process. In other words, not only developing countries but also industrialized ones faced changes in their culture, politics, and economy, because of globalization. They believe that it is wrong to demonize industrialized countries and consider that they are forcing developing states to change domestic structure onto Western-led policies.

According to transformationalists, traditions of developing countries are not replaced by the Western culture, but due to globalization, developing states are able to selectively apply some policies of industrialized countries (Held et al., 1999, pp. 26-28). Stefanovic refers to the Viletic argument about four dimensions of globalization: capitalist economy, the division of labor, world military order and the nation-state system. Due to these specific features, Western countries became the leading power in the world. International spread of these dimensions and their transformation of the

nation states can be considered as globalization (Stefanović, 2008, p. 265). These dimensions are spread worldwide under the agenda of international and regional institutions. According to Ronald Paris, while retaining the status of the main actor in the international arena, due to the globalization nation state is sharing its political and economic power with other international and regional organizations, corporations and non-governmental organizations. For instance, under the WTO member states are defining common international trade rules, which are transforming the economic agenda of the governments (Paris, 2003, pp. 154-155).

This argument explains that globalization is the process under which countries are transforming their economy, politics, and culture. In this case, globalization is a phenomenon, which will lead to a new world order. However, actors such as the state will not lose their power but will face internal transformations. Thus, for transformationalists, states are still the main actors in the international order. However, globalization led to the creation of international institutions, corporations and other new entities that create rules and regulations for better cooperation. Thus, states that want to be part of the globalization and cooperate with other states are transforming their domestic rules and regulations to fit global standards (Held et al., 1999, pp. 487-488).

The theoretical framework of the research will be the third wave, transformationalist view on globalization theory. My argument is that the rising economic power of China will not lead to a new global economic system that is an alternative to neoliberal market. Instead, the analysis will identify that in order to be part of the globalized world China transformed its economic system, by implementing neoliberal policies.

1.6 Research Methodology

The methodology of the research will be qualitative, non-experimental research design with case studies by using secondary sources, such as books, journals, newspapers, and interview of experts.

1.7 Literature Review

After the Cultural Revolution in 1978, Deng Xiaoping started reforms that led to the economic development of China. The first part of reforms included the right to sell agricultural products, later this process led to the opening market for FDIs, property rights and creation of special economic zones for investments. In parallel with domestic reforms, China became a member of the World Bank and International Monetary Fund. Later China entered the World Trade Organization. The main difference between developing strategies of China and strategies that were created by the US for the development of Latin America and other developing countries is the fact that China did not apply abrupt reforms. In contrast, China was developing patiently without shock therapy to the domestic economy and saved stability in the country (Vogel, 2011). According to the historical process of reforms in China, Giovanni Arrighi argues that Adam Smith, who was the pioneer of the free market and founder of the term “invisible hand” was against strategies like shock therapy.

Smith believed that large sectors of the economy have to be reformed slowly and gradually. According to Arrighi (2007):

Nowhere does Smith suggest that the invisible hand of the market acting on its own can get the economy unstuck from such a trap. If anything or anyone can, it is the visible hand of the government through suitable changes in laws and institutions (p. 50).

In other words, Arrighi argues that according to its fundamental meaning, the invisible hand of Adam Smith is similar to the Chinese development process than to the Western-led neoliberal policies. In his view, Chinese economic development is a result of a balance between the open free market and government regulations. Thus, the author suggests that the rise of China can be considered as an alternative system that will replace the Washington Consensus (Arrighi, 2007, pp. 321-324).

Joshua Cooper Ramo in his work “The Beijing Consensus” underlined three important factors for effective development that were used in Chinese development process. First, he argued that in order to develop, the government has to be flexible for changes. In other words, there are no policies that will fit in different situations. Ramo criticized the US and Washington Consensus(WC) package for the illogical use of the same policies in different developing countries and worsening of the situation. Second, he argued that the GDP per capita cannot be considered as the only measure of a country’s progress. Ramo suggested that the sustainability of the economic system and distribution of wealth together with the GDP per capita can give a reliable evaluation of the progress of the country (Ramo, 2004, pp. 11-12). The third point is that developing country has to have a strategy on how to balance the influence of the superpower and its own economic development (Ramo, 2004, pp. 37-41).

Two out of the three mentioned factors can be related to the Chinese development process. Whereas because of large population China is still struggling with high-income inequality. However, according to David Harvey, in parallel to authoritarian centralized control, the Chinese market economy includes elements of neoliberalism (Harvey, 2005, p. 120). In other words, the Chinese economic model of development is not something opposite to the neoliberal market, but it is neoliberalism with Chinese

characteristics. The alternative economic system is usually expected to be something different from the old system. On the one hand, China is currently the second largest economy in the world, it still remains the closed country which is able to keep in balance open market, and communist ideology. On the other hand, China cannot achieve economic rise through the strengthening of his communist system and the closed economy, the main distinctive features of the country. China can achieve development only through the adoption of neoliberal policies, joining other countries in the open market. In the world of globalization and liberalization, China is transforming its economy according to the neoliberal system, in order to develop a powerful country in the well- established globalized world (Harvey, 2005, pp. 151-152). Thus, the hypothesis of this research draws on the arguments of David Harvey, and suggests that the rise of China does not mean the creation of an alternative economic system to Washington Consensus, but rather it shows how close and different in many ways a country like China is transforming its economic policies by implementing certain neoliberal policies in order to be part of the global market and in parallel trying to save its distinctive political and cultural features.

1.8 Structure of the Thesis

The first chapter includes the purpose of the research, research question, hypothesis, and literature review and provides the theoretical framework and methodology of the research. The second chapter is focused on explaining the definition of neoliberal world order and Washington Consensus. In this regard, the chapter will include a short analysis of the foundation of neoliberalism in the United Kingdom and the USA. The third chapter explains the creation of the PRC and leadership of Mao Zedong from 1949 till 1976. The chapter evaluates the economic development of China prior to the

reforms. The fourth chapter focused on China under the leadership of Deng Xiaoping from 1978 till 1992. The chapter includes important economic reforms which led to the economic transformation of the country. The fifth chapter focused on three generations of government after Deng Xiaoping, from 1992 till nowadays. The chapter includes political, economic changes in the country under Jiang Zemin, Hu Jintao, and Xi Jinping. The sixth chapter will analyze and identify the gradual transformation of PRC from 1949 till nowadays based on the found information. The chapter defines the way of transformations, its impact on the country and how economic transformations changed the role of China in the international arena. The last, seventh chapter will include the conclusion of the research results and recommendations for future research in this field.

Chapter 2

THEORETICAL FRAMEWORK

The chapter is dedicated to explain the theory of neoliberalism and elaborate the debate on whether Chinese rapid economic development represents an alternative to Washington Consensus or neoliberalism with Chinese characteristics. The first section will be dedicated to the analysis of the historical development of neoliberalism. The second part will focus on the policies of the Washington Consensus and debates about its results. The third part will include debates about Chinese economic development.

2.1 Classical Liberalism

The ideology of classical economic liberalism became popular during the seventeenth and eighteenth century. Classical economic liberals argue that the market controlled by the government cannot achieve economic prosperity, because individuals in the government have their own interest and their actions on trade and business will not represent the interest of the society. As criticized by Adam Smith government is the greatest spendthrift of society (Smith, 1901, p. 460). Adam Smith, in his famous work the Wealth of Nations argued that the best alternative for abusive government power in the market is individual freedom (Smith, 1901, p. 914). Considering the possibility of unequal results of the liberal market for individuals, he argued that with individual freedom rich will consume more as well as redistribute more (Smith, 1759, p. 165). In terms of international trade, Smith argued that the individual is interested to promote domestic industries rather than foreign industries due to his self-interest. However, in parallel to pursuing his own interest individual is led by the invisible hand to promote

the interest of the society (Smith, 1901, p. 593). David Ricardo analyzed the idea of the division of labor between countries. He argued that with free trade and without government intervention, the country will be able to specialize in the production of goods for which it has a comparative advantage. Thus, according to classical liberalism state should not intervene in the market. In this case, individuals and private industries with the aim to pursue self-interest will focus on production of abundant goods and will import goods that are in deficit (Costinot & Donaldson, 2012). However, theories of the self-correcting free market economy of Smith and limited state interference in the market became questionable after the devastating results of the Great Depression in the 1930s. As a way to stabilize the situation, John Maynard Keynes suggested that the government can use fiscal and monetary policies to increase output and decrease unemployment (Balaam & Dillman, 2014, p. 36). Keynesian model of economics became part of the Bretton Woods system, created in 1944. Under the Bretton Woods system, nations agreed to reestablish free trade as it was prior to World War II. In parallel, governments were able to regulate their domestic markets in order to decrease unemployment (Rahman, 2017, pp. 71-75). Later, John Ruggie defined this economic model as “embedded liberalism”, a compromise between past nationalism and liberalism, in other words, multilateral trade which can be predicted upon domestic interventionism (Ruggie, 1982, pp. 392-393). However, at the beginning of the 1970s, the Keynesian model was proven to be ineffective, because it led to stagflation, the combination of low growth and high inflation. Thus, the 1970s was the starting point of a new version of liberal ideas, neoliberalism (Balaam & Dillman, 2014, pp. 38-39).

2.2 Neoliberalism

Neoliberalism became a widespread ideology in the early 1980s (Steger & Roy, 2010, p. 10). Different scholars give a broad explanation of what are the elements of neoliberalism. However, there is no precise definition of neoliberalism as an ideology. Thus, according to Elizabeth Martinez and Arnaldo Garcia, neoliberalism supports the liberation of private enterprises, greater openness to international trade and reduction of wages. Secondly, neoliberalism implies a reduction of safety net for the poor part of the population through the cutting of public expenditure for social services. Third, the government decreases regulations that can somehow diminish the profit of businesses. Forth, neoliberalism encourages privatization of industries and the replacement of the concept of the public good with individual responsibility (Martinez & Garcia, 1997, p. 2). Steger and Roy explained neoliberal policies more generally, based on “D-L-P Formula”. Thus, according to them, neoliberalism means deregulation of the economy, trade and industry liberalization, and privatization of state-owned companies. According to scholars, under neoliberalism government is supporting business owners, through massive tax cuts, elimination of barriers to enter international trade, whereas it weakens positions of labor through anti-unionization in the name of labor flexibility (Steger & Roy, 2010, p. 14). David Harvey defined neoliberalism as a theory of political economy, under which the main duty of the state is to establish and protect the institutional structure, that based on strong private property rights, free market, and trade. The state has to guarantee the quality of money and create the defense and legal structure to protect private property and secure proper work of the market. In the sphere where the market does not exist, such as water, education, healthcare, the state has to create a market through privatization. Beyond these tasks, the state should not intervene, because the government can mislead prices

in the market, and powerful interest groups can influence government actions for their own benefits (Harvey, 2005, p. 2). Similarly, Thorsen defined neoliberalism as a composition of political beliefs. According to these beliefs, the main duty of the state is to protect the mercantile freedom of individuals and corporations (Thorsen, 2010, p. 203). However, it is important to underline that neoliberalism does not imply that the state will not participate in the market. On the contrary, critics like Munck analyzed that while the state should limit its role in the market, it is still an important actor, because it has to roll out new policies to strengthen the neoliberal ideas in the society (Munck, 2005, p. 63).

Most of the capitalist countries accepted the main elements of neoliberalism. First, the privatization of state-owned enterprises was welcomed by capitalist countries, because it led to minimizing government spending. It was assumed that the privatization of public enterprises would lead to companies being more effective under the control of individuals, businessmen. One of the reasons is that the profit (wages) of owners and workers are in direct proportion to the development and competitiveness of the company (Bennett, 1986). Second, trade liberalization led to the decrease of taxes, tariffs and encouraged fair competition in the market. While neoliberal ideas became widespread it led to the creation of the new economic theory of supply-side economics, which is opposed to the Keynesian model of demand-side economics. As the name of the theory suggests, according to supply-side economics government has to cut taxes, encourage competitiveness, and increase the level of production for the economic growth of the country. In other words, lower taxes and higher competition will lead to lower prices of products and will attract consumers, even if the demand for that product was low (Bennett, 1986).

Third, in terms of government spending, neoliberals believe that subsidies and social security programs have to be reformed in order to minimize the amount of financing. The government should give material compensation only to those citizens who really need it, not to everyone who fits under certain criteria (Peters, 1983, p. 12). Neoliberals like Milton Friedman believed in individualism and individual liberty, which has to be supported by the government. According to Friedman, the welfare system should be separated from the market and the government can leave this function to private charities and local authorities. He argued that leaving the welfare system to charities and local programs will make the process of subsidizing the poor part of the population more efficient (Friedman M., 1951, p. 3). In the 1960s, Milton Friedman was critical about the Keynesian policies and opposed the idea of government interventionism (Cherrier, 2011, pp. 347-348). Later, in the 1980s he became an advisor of Roland Reagan and Margaret Thatcher. During that time, his ideas about privatization, individual responsibility and deregulation became part of the neoliberal policies (Hammond, 2011, pp. 41-43).

Two politicians that played an important role in the implementation of neoliberal principles, Margaret Thatcher and Ronald Reagan believed that humanitarianism and social security programs for financing poor people would lead to conditions where this group of society will not be willing to develop and work (Monbiot, 2016). Margaret Thatcher was one of the first supporters and promoters of neoliberal principles in the Western world (Dalingwater, 2015, pp. 61-78). Overall, neoliberal policies of Margaret Thatcher led to the privatization of nearly 50 state-owned entities, lowering taxes, cutting government spending and privatization of social security spheres.

These changes led to the creation of new businesses, the creation of new fields, such as information technology and to the development of the financial sector in the country. However, with the rise of unemployment to over 3 million people, policies of Thatcher were and still are criticized as having a devastating impact on the poor part of the population (Osborne, 2013). Ronald Reagan was promoting the similar ideology of individual freedom and the free market during his presidency. Despite the fact that both leaders were trying to reduce government spending by cutting taxes, Reagan's policies were comparatively gradually implemented and he did not increase value-added taxes on products, as it was done by Thatcher, and which led to recession in the United Kingdom (Cooper, 2012, p. 88).

In general, reforms led to the abolishing of majority social projects an increase of funding for general programs like Medicare and Medicaid, which according to Reagan were created in order to protect those who "truly needed" (Oberlander & Marmor, 2015, pp. 65-66). Both programs were created in 1965; Medicare is the project for health coverage for people 65 years old and older and for people with severe disabilities. Medicaid is the program for health coverage of citizens with low income (The MNT Editorial Team, 2006). Reagan is known as the president with the largest tax cuts in terms of both income tax rate and corporate tax rate in the US. In statistical terms, however, cutting taxes did not mean the reduction of spending. During his presidency, Reagan doubled the debt and increased government spending by 2.5 percent a year (Cooper, 2012, pp. 65-66). Currently, neoliberal development principles became widespread in almost every country. However, during the Cold War, laissez-faire capitalist economy in the US, and the centralized communist economy in the USSR represented two different blocs of two dominant rival countries.

On the one hand, tensions between these actors led to an increase in defense spending. On the other hand, the world's division into blocs and the US leadership in the capitalist side allowed the US to spread neoliberal ideas in the postcolonial world (Hickel, 2012). Thus, one of the main reasons behind the implementation of neoliberal principles in other countries was because of the US interest to spread its ideology abroad, in order to become the leading power in the world.

2.3 Washington Consensus

The term Washington Consensus refers to the set of economic policies, accepted by the IMF, WB and the US Treasury Bank. The WC was required to be implemented in the developing countries, mainly in the countries of Latin America in order to recover from the financial and economic crisis in the 1980s (Babb & Kentikelenis, 2018, p. 19). In the 1970s, the US and UK faced a rapid rise in the financial sector due to the rise of privatization, reforms, and limitation of the role of the government in the market. Investment banks increased their funding of foreign countries, particularly developing states (Hickel, 2012). Before the “lost decade”, most of the developing countries used import substitution industrialization (ISI) as the strategy for the development. In general, this strategy was based on state-led development, opposite to the ideas of neoliberalism. The program consisted of two stages. At the first stage, developing countries would develop domestic manufacturing of simple goods. This would lead to the economic stabilization, partial independence of the developing countries from the imports from developed countries, increase export and decrease the unemployment rate. At the second stage of the ISI program, countries were required to shift to the production of more complex goods (Oatley, 2015, pp. 111-132).

At the first stage of ISI, Latin American countries were able to borrow more loans from international creditors with the aim to build the manufacture of simple goods. Latin American countries started to borrow foreign loans for industrialization. The number of credits increased rapidly from the 1970s. Compared to the 1970s, when the total amount of loans of Latin American countries from the US commercial banks was around \$ 159 billion, in 1982 the numbers increased to \$ 327 billion (Sims, 2013). Considering the fact that most of the loans were borrowed in US Dollars, the oil crisis in the 1970s and 1980s affected both the value of US currency and the debt of Latin American countries. Thus, with the collapse of oil prices, simultaneously economies of Mexico, Brazil, and other countries collapsed. During this period of economic crisis, the US, under the idea of financial help, started implementation of neoliberal policies (Hickel, 2012). The US together with IMF WB decided to decrease the amount of debt, in return for the implementation of neoliberal policies in Latin American countries (Sims, 2013).

The IMF and WB became tools for the implementation of new reforms and policies in developing countries. John Williamson created the Washington Consensus project and its 10 policies for regulation of the economy. In practice the Washington Consensus led to different results in different regions, thus debates about its effectiveness is still ongoing (Williamson, 2002). According to the author, in its original form, Washington Consensus consist of the policies focused on fiscal discipline, public expenditure priorities, tax reforms, financial liberalization, management of exchange rates, trade liberalization, increase foreign direct investment, privatization, deregulation of the domestic market and secure intellectual property rights (IPR) (Williamson, 1994, pp. 26-28).

In 2002, Williamson gave a speech at the Center for Strategic & International Studies, in Washington, DC, which later was published and considered as his analysis of the Washington Consensus. He argues that the Washington Consensus did not mean automatic inclusion of neoliberal policies, like supply-side economics, minimal state or capital account liberalization (Williamson, 2002). However, Williamson accepted the fact that one of the mistakes in the implementation of the ten policies was that the founders did not include a set of suggestions on how to avoid a crisis. On the other hand, he claims that in the 1980s during the reforms there was no need for any such suggestions (Williamson, 2002). The second reason of negative results of Washington Consensus was the fact that governments did not complete reforms, meaning that after elimination of the deficit, the government did not continue to collect surpluses in a good period to prevent a future deficit (Williamson, 2002). In general, Williamson agrees with critics about Western countries' promotion of liberalization in developing countries, while continuing to implement protection of their own domestic products. However, he argues that laissez-faire economics and neoliberal ideas of the market are essential for the development of international trade that will prevent the division of global market and discrimination, as it used to be in the past (Williamson, 2002).

In his book "Globalization and its Discontents", Stiglitz argued that the structural adjustment policies failed and worsened economic situation in Latin American countries because IMF, WB, and US Treasury Department were unable to analyze situation in that region from a different perspective and understand the real situation in terms of economic, governmental and cultural environment in the countries (Stiglitz, 2002, pp. 18-19).

One of the main arguments of Stiglitz is about trade liberalization. He criticized developed countries for forcing other states to open markets, while in the past they did not liberalize their own domestic markets at the early stages (Stiglitz, 2002, p. 6). Thus, Stiglitz expanded the original set of policies of the Washington Consensus. According to the new version, policies should be focused on the development of the real economy together with inflation. They should attempt to improve the regulatory framework of the financial system, rather than assume that liberalization is the only way to the development. In addition, neoliberal policies should consider various possible mechanisms in order to increase the efficiency of government, instead of the attempts to limit the government's role. They should focus on improving the process of creation of the human capital. They should seek to increase the transfer of technology to developing countries (Williamson, 2004, p. 14).

Another important aspect of Stiglitz's version of the WC is the creation of the appropriate institutions that will favor country-specific policies, based on the cultural and social differences in contrast to the one-size-fits-all approach of the original WC (Sheppard & Leitner, 2010, pp. 187,192).

2.3.1 Critics of the Washington Consensus

Alfredo Saad-Filho and Deborah Johnston explained the failure of the original Washington Consensus policies based on the five reasons. First, the policies favored large domestic and foreign financial capital, while negatively affecting smaller capitals and workers. As a result, income is transferred to the rich countries and will lead to higher unemployment and wage stagnation. Second, while deregulations are limiting the policymaking capacity of the government, the free market increases economic uncertainty. Third, while Washington led policies to support new industries, it is destroying traditional industries, thus leading to higher unemployment and poverty.

Fourth, despite the fact that reforms are supporting the development of new businesses, overall the project overestimated level of investment. Finally, the project increased the power of the IMF and WB. These institutions gained the power to intervene to the domestic economic and political process of the country, with the excuse to control implementation of the Washington Consensus policies (Saad-Filho & Johnson, 2005, pp. 2-5). In addition, Saad-Filho criticized Stiglitz's version of the Washington Consensus, saying that later version is generally similar to the original set of policies concerning developing countries, thus supports the free market, privatization, and deregulation. The main differences are only on the speed, depth and method of reforms (Saad- Filho, 2005, p. 118).

Hugo Radice considered Washington Consensus and neoliberal ideas together with capitalism and globalization, as the new version of imperialism at the international level. Radice argued that with increasing liberal internationalization, multinational corporations became the source for the employment of the working class. In this case, the nation is losing its self-determination and the government is influenced by corporations and will not oppose the exploitation of the working class (Radice, 2005, p. 97). Tabb criticized original Washington Consensus and Stiglitz's version for the support of the class rule. However, he argues that if the original policies of the Washington Consensus led to the creation of elite groups in different developing countries, the revised version of the Consensus blames the elite groups and governments rather than the policies itself for the failure of the reforms (Tabb., 2003). Ziya Onis and Fikret Senses underlined that Washington led neoliberal policies failed because developing countries were required to open their markets without strengthening their financial and political system. Thus, new reforms led to the crisis

and high level of corruption in most of the cases (Onis & Senses, 2005, pp. 263-290). Eric Berr and Francois Combarrous analyzed that the Latin American countries, which strictly followed the policies of the revised WC faced higher inequality and poverty level, in comparison to the countries that were applying WC policies selectively. According to the research of Berr and Combarrous, countries that applied all policies of the WC did not achieve stronger economic growth than other countries (Berr & Combarrous, 2007, p. 539). Beeson and Islam analyzed that based on the statistics the policies resulted in higher inequality and an increase in the poverty level worldwide. As an alternative to the neoliberal ideas, Beeson and Islam suggested developing countries to create a mixed economy, where both state and market play the main role in the economic development of the country (Beeson & Islam, 2005, pp. 203-208).

2.4 Does the Economic Model in China Represent an Alternative to Neoliberalism?

2.4.1 China is a Non-Capitalist Market Economy

In his book “Adam Smith in Beijing” Giovanni Arrighi argued that China can be considered as a market economy, but due to the communist regime the state is not influenced by the class interest, thus its economy is non-capitalist, alternative to the Western neoliberalism (Arrighi, 2007, p. 332). The book starts with the analysis of Chinese and European development in the eighteenth century. Through the comparison, Arrighi argues that for that time China had more developed trade and market than Europe. However, China faced a high-level equilibrium trap, when the economic improvements were stopped by the limits of the market space and institutional settings of the process. In other words, the market reached a maximum in a given territory and could not grow further (Arrighi, 2007, pp. 24-25).

In contrast, Europe was able to avoid the high-level equilibrium trap by expanding its production force and increasing accumulation of capital by including colonized territories into the market-based economy. This tendency of endless accumulation of capital and power defines the European development path as “capitalist” according to Karl Marx or “unnatural” according to Adam Smith (Arrighi, 2007, pp. 76-93). Smith argued that Chinese economic development strategy can be understood as “natural” and successful because the government started development from agriculture, and rural population was less subjected to the negative consequences of the division of labor. Whereas Smith identified the European development path as unnatural, where individuals, capitalists, can influence the government’s decisions on economics (Arrighi, 2007, pp. 62-92). In terms of China, Arrighi argues that if China will become an influential actor in the world market its development strategy can be considered as an alternative to Western-led capitalism and neoliberalism. First, in eighteenth-century China did not continue “natural” development path, because the government was concentrated on the development of the internal market and prioritized peaceful relationship over the imperialistic dominance in the region (Arrighi, 2007, pp. 321-324). Secondly, although during the reforms of Deng’s era in the 1980s, most of the FDIs were from Chinese capitalist diaspora in Hong Kong and Macau and reforms led to the enrichment of the certain group, the party retained its decisive role in the economy of the country. Third, deregulation and privatization in China were selective and slower, in contrast to shock therapy under Washington Consensus. In addition, considering the large population the government is investing in many infrastructure projects and created Export Processing Zones (EPZ) where each manufacturer has its own specialization. Lastly, in its economic development, the government supported competition of capitals and did not concentrate on the privatization only (Arrighi,

2007, pp. 351-359). Joshua Cooper Ramo used the term Beijing Consensus to refer to the model of Chinese development, in his work with the same title in 2004. Beijing Consensus is the term used to identify general strategy in the development process in China (Ramo, 2004, p. 4). Ramo, in his paper, underlined three broad ideas for the development that were used in China. First, in order to define the right strategy for the development of the country, the government should endorse innovation and experiments. In this context, Ramo underlines the importance of not copying policies from other countries, as it was done under Washington Consensus, but to experiment and find reforms that will be successful, based on the uniqueness of a particular state (Ramo, 2004, pp. 11-12). Second, rejection of per capita GDP as the measure of progress. Because GDP does not include the level of the county's progress in other spheres, such as equality, life expectancy, and human development index, considering only GDP numbers can undervalue or overvalue countries real development progress (Ramo, 2004, p. 12). The third point of Ramo's analysis is the idea that less developed countries should avoid pressure and interference of industrialized countries into their domestic policies. In contrast to other developing countries in Africa and Latin America, China usually prioritized its own interests. In practice, different Chinese economic programs and projects became appealing in the most of the developing countries, because of Chinese noninterference into the domestic politics of the countries (Ramo, 2004, pp. 37-41). One of the concerns about the Beijing Consensus as the new alternative model for the development, is that its main points are general, more related to the philosophical ideas about the behavior of the government, and does not really suggest clear economic strategies for better economic development in the country (Dirlik, 2006, p. 1).

Dirlik suggested that in order to assess the development process in China, one should not forget about the role of international corporations and foreign direct investments, which made a significant contribution to the industrialization of the country. Dirlik further argued that rapid growth of foreign investors was because of cheap labor, and while the country is becoming one of the largest economies in the world, the income of population is still relatively low (Dirlik, 2006, p. 3). Although he is critical about Beijing Consensus as a model for economic development, Dirlik agrees that the autonomy and self-determination of China can lead to a new global order, where countries will have an economic relationship, but in parallel accepting the importance of political and cultural differences (Dirlik, 2006, p. 5). Similarly, Stefan Halper argues that in terms of international relations Chinese authoritarian values are more accepted by the developing countries, whereas Western-led democracy and liberal ideas proved to be unsuccessful and threatening to the government of second and third world countries (Halper, 2010, pp. 134-173). Martin Jacques, in his book “When China Rules the World”, came to the similar conclusion that China is rising as an alternative to the current Western-led world order. According to Jacques, although Deng’s reforms contained neoliberal principles it did not lead to Westernization of the country. Because the goal was to reestablish the leadership of the Communist Party after Mao’s death through economic development (Jacques, 2009, pp. 156-157). Based on the analysis of the Chinese long history, Jacques argues that when China was weak it was obliged to accept Western terms. However, while China is emerging as a powerful country, it will set its own terms and conditions based on its historical background as a civilization-state (Jacques, 2009, p. 417).

2.4.2 Neoliberalism with Chinese Characteristics

David Harvey, in his book “A Brief History of Neoliberalism” opposed the idea that China represents an alternative model to the Western neoliberal strategy. Harvey argues that while neoliberalism meant to strengthen private property rights, free market, and trade, it also can be considered as a political project to reestablish capital accumulation and strengthen the power of economic elites (Harvey, 2005, pp. 2, 19). According to Harvey, China became a neoliberal market economy with emerging class power. However, due to its unique features, the development path of the country should be considered as neoliberalism with Chinese characteristics. On the other hand, rising authoritarianism and nationalism in China is similar to neoconservative ideas in the US (Harvey, 2005, p. 151).

After the start of reforms in the 1980s, China incorporated neoliberal policies of deregulation and privatization into its own domestic economy. As a result, China is facing similar, even wider inequality between rich and poor parts of the population, which is leading to the protests of the latter. Another important point is that the selective privatization and deregulations under the party control led to the creation of elite class businessmen among former and current party officials. According to Harvey, the integration of business and party elites in China is common in neoliberal Western states (Harvey, 2005, pp. 144-150). In his analysis, Harvey underlines that there is no strong example of successful neoliberal state and neoliberalism became either transitional or unstable political form. The main reason for the problem is the contradictions of the neoliberal principles. First, while the state should create a good climate for business and be active in global politics

it has to work as a collective corporate. However, collective corporate will create problems with citizen’s loyalty. The state could solve the problem by increasing

nationalism, but it will contradict the individualism of the neoliberalism. Secondly, the fact that ordinary people are dependent on corporations contradicts the idea of individual freedom. Third, there is a need for strong global governance to achieve successful international free trade and avoid a global financial crisis. Fourth, despite the obvious competition in the global market, in reality, the market is centralized around a few multinational corporations. Finally, the destruction of the idea of society is threatening social order. As a result, it became difficult to combat and punish anti-social behaviors (Harvey, 2005, pp. 78-81).

Thus, according to Harvey, neoconservative ideas can be the answer to the problems of neoliberalism. While neo-conservatism includes the same principles of free market and elite governance, the main differences are that the former considers individualism in the country as chaos, stresses the importance of morality and militarization to keep the social order. The author argues that while the neoliberal principles can lead to division and chaos of the nation, most of the countries with the neoliberal market are relying on the neoconservative principle of social order through the propaganda of nationalism. Hence, according to Harvey Chinese authoritarianism, rising nationalism and propaganda of the government are not contradicting to the Western development path but shows that the Chinese model of development is similar to Western neoliberalism and the ideas of neo-conservatism (Harvey, 2005, pp. 81-85). Williamson argues that even with the strong interference of the government, China is already liberalizing its market. Thus, for instance, he underlines the fact that in 1978 the private sector owned only one-fourth of manufactures, the rest was produced by the state-owned enterprises. However, in 2010 the situation has changed and the figures were the right opposite. Therefore, the government is encouraging privatization

because the rise of the economy in China is the result of market liberalization, which is the main characteristic of Washington Consensus (Williamson, 2014, pp. 180-182). In terms of government regimes, he argues that Washington Consensus did not refer to the role of democracy and even with Chinese perception of democracy as a Western ideology that has to be opposed, the result of economic policies does not depend on the regime (Williamson, 2014, pp. 182-183). Overall Williamson refers to the Beijing Consensus as the policies pursued by China, which should not be considered as an alternative to the Western development strategy (Williamson, 2012, pp. 1-16).

Fulong Wu argues that state control is the precondition of market development because the transformation of the economy leads to the number of changes and chaos in society. Wu underlines that when the market deadlocked state builds the market. In the case of China, capital accumulation came to a dead end under socialism and the government launched reforms to create a market society based on the neoliberal policies. According to Wu through the creation of the market society China can gradually achieve free market and democracy in the future (Wu, 2008, pp. 1095-1096). Scott Kennedy criticized Ramo's three principles of Chinese development for their inaccuracy. Thus, according to Kennedy, Chinese strategy cannot be considered as innovation-led development, because most of the successful technologies and other innovations are foreign ideas and designs. Second, sustainability and equality of Chinese economic development are under the question. Thus, despite the rapid development, the country is facing higher inequality and environmental problems.

Third, self-determination of China is conditioned by its unique elements as a country (size, population etc.), but distinctive features of the development process of every country should not be accepted as an alternative consensus (Kennedy, 2010, pp. 461-

477). According to Yang Yao, the main distinction of Chinese development is that the Chinese government applied WC principles gradually with the consideration of the political and economic realities of the country. Yao argues that while China followed Western-led principles, its gradualism and adaptation of the principles to the realities of the country can become a good example for other developing countries (Yao, 2011, pp. 28-29). Yves Tiberghien argues that there is no such Beijing Consensus and the development path of China can be considered as an experimental and gradual approach of integration to the corporate globalization under the strong state control. Tiberghien underlines that while the Washington Consensus had well defined set of policies as a strategy for the development of developing countries, it is difficult to apply Chinese economic strategies to other countries, because of the unique features of the country. Thus, he argues that even if other developing countries will copy special economic zones system of China, it will not lead to the same results, because in Chinese case government experiments were based on unique social, geographical and political conditions in the country (Tiberghien, 2012). Similarly, Cornel Ban and Mark Blyth suggested that rising economic cooperation like BRICS (Brazil, Russia, India, China, and South Africa) adopted selective parts of the Washington Consensus in parallel with the state-led development policies. However, the reassertion of the role of the state in these cases is the exception rather than the rule. Thus, their development path is neither an alternative model to the WC nor the continuation of the neoliberal reforms. According to Ban and Blyth, these developing countries created a hybrid strategy of the development based on their domestic political struggles (Bann & Blyth, 2013, pp. 250-251). Similarly, Beeson and Zeng argued that China can have different ideas about the role of the government in the market. But, it cannot overturn the

existing model, because China is developing under a certain sort of the capitalist economy (Beeson & Zeng, 2018, p. 1964).

2.5 Conclusion

The neoliberal model of the economic development required free economy, the liberation of trade and industry and privatization of state-owned enterprises. First neoliberal policies were implemented in the UK and the US. In general, reforms led to the decrease of government participation in the economy, increase privatization and businesses in a parallel decrease of the welfare programs for the poor part of society. Further, the principle of laissez-faire economics was spread in the developing countries under the Washington Consensus project. Overall, the main goal of the neoliberal policies under the Washington Consensus was to limit the role of the government in the market, decrease the level of the government spending through cutting taxes, social programs etc.

According to Arrighi and Ramo development strategy of China can be considered as an alternative to the Washington Consensus. Arrighi argued that during its development process China was focused on the development of the internal market. In contrast, one of the main reasons for the Western rapid development was its imperialism and accumulation of capital and power through colonizing new territories. Secondly, although reforms of Deng's era created an elite group in the market, the communist party remained the decisive actor in the economy. Third, the main goal of the Chinese reforms was to develop competition of capital, thus, privatization was not the focus. Fourth, the government started a number of infrastructure projects and support of the state-owned enterprises, in order to prevent the rise of unemployment. Ramo argued that the development strategy of China could be considered an

alternative to the Washington Consensus and represent Beijing Consensus. According to Ramo, Beijing Consensus does not include specific policies, but consist of three theorems for development: the necessity of innovation, rejection of per capita GDP and self-determination.

According to Harvey and other scholars, the development path of China can be considered as neoliberalism with Chinese characteristics. He argued that Chinese reforms and deregulations that started in the 1980s consist of the government acceptance of the neoliberal principles of privatization and the free market. The author argues that despite the control of the communist party, China faced increasing inequality between poor and rich parts of the society, as well as the creation of the elitist group, similar to the effects of neoliberalism in the Western countries. However, because privatization in China was done under the strict control of the ruling party, the majority of the current elitist group is former party officials who were able to be first in the open market due to their influential status in the government. Thus, according to Harvey, the Chinese development model can be considered as neoliberalism with Chinese characteristics.

Following chapters of the thesis will focus on the analysis of the historical development path of the economic reforms following the creation of the People's Republic of China and how the country was transforming under the globalization.

Chapter 3

CHINA UNDER THE COMMUNIST PARTY AND MAO'S LEADERSHIP. 1949-1976

Chapter 3 will focus on China under Mao Zedong's leadership that started in 1949 and ended in 1976. It will provide an analysis of the economic developments as well as domestic and foreign policies of Mao Zedong. First part will be dedicated to the history of the Chinese Civil War, which resulted in the establishment of the People's Republic of China (hereafter PRC). The second part will be the analysis of the political campaigns of the Chinese Communist Party (CCP), which affected the economic development of the country. The third section will include foreign affairs of PRC during that time.

3.1 Republic of China

The beginning of the 20th century was a landmark in the history of the foundation of China because prolonged external imperialistic pressure and internal rebellions resulted with the end of the Qing dynasty and creation of the Republic of China (ROC) in 1912.

Sun Yat-sen was one of the main figures in the creation of ROC. He played an instrumental role in the revolution against Qing dynasty and became the first provisional president of China. In the early period of the Republic of China, the country had an unstable economy and politics and as a result, faced a number of

rebellions and changes in the government. Despite the creation of the republic, the title of the president became symbolic and real power was practiced by warlords, and later by the Communist party (Fairbank & Goldman, 2006, pp. 255-331).

During this period, Sun Yat-sen created the Nationalist Party of China (Kuomintang) and formed an alliance with the Communist Party in order to unify China under one government. However, he did not achieve his plans and died in 1925. After his death, Kuomintang and Communists divided into two blocks and in 1927 their contradictions led to the Civil War (Gray, 2002, pp. 140-149).

3.1.1 Civil War (1927-1949)

After the death of Sun Yat-sen, Chiang Kai Shek, who was the supporter of Chinese traditional culture and rejected both capitalism and communism, became the leader of Kuomintang. Under his rule, the party enlarged its territory of occupation and he started the massacre of communists and provoked the Civil War. At the beginning of the Civil War, Kuomintang had control over the major parts of China, whereas Communists were located in small rural areas. Communists started recruiting of peasants, students, and intellectuals, thus increasing the number of party members (Fairbank & Goldman, 2006, p. 305).

Mao Zedong was one of the leading members of the party and helped to create the Red Army of workers and peasants during the Civil War. He believed in the effectiveness of guerrilla warfare, which generally meant civilians using military tactics to fight against the traditional military group. This strategy helped Communists to break the Kuomintang encirclement and increased the power of the Communist party (Chang & Halliday, 2005, pp. 59-162). In this period, China experienced not only the Civil War

but also an escalation of international conflicts. China was in conflict with Japan for a long time, which led to the First Sino- Japanese War during the Qing dynasty, at the end of the 19th century. The conflict was continuing even after the creation of ROC. Under the influence of his party members, Chiang Kai Shek agreed with Mao Zedong to terminate ongoing Civil War and unite for a battle against Japan and this led to the beginning of Second Sino-Japanese War in 1937 (Gamer, 1999, pp. 63-100). While the Nationalist Party was controlling the major part of the country, almost all Japanese military actions were focused on them, whereas Mao Zedong was able to continue recruitment. Thus, from 1941 when Japan declared war against the US and started to withdraw from China, Communist Party became more powerful and had control over a larger territory than before (Fairbank & Goldman, 2006, pp. 326-330). Although Chiang Kai Shek occupied Manchuria and was seemingly overrunning the communists, guerilla tactics of Mao Zedong led to instabilities in the occupied territories, and in 1948 with the fall of Manchuria communists started to conquer major parts of the country. In 1949, Mao declared the creation of the People's Republic of China (PRC), whereas Chiang Kai Shek and other members of the Nationalist Party left the mainland and established the Republic of China in Taiwan (Gray, 2002, pp. 282-284).

3.2 People's Republic of China

On 21 of September in 1949, Mao Zedong declared the creation of the PRC and nation welcomed the creation of communist regime with the hope for a better future. The highest position in the government was the Chairman of the Communist Party. The position was held by Mao from 1943 till his death in 1976. The Chairman of the PRC was the president and head of the state. The position was held by Liu Shaoqi from 1959 till 1968. However, since the country was under the control of the Communist

Party, Chairman of the party was the actual leader of the PRC, whereas the president was the nominal position without actual power (Mackerras, McMillen, & Watson, 1998, pp. 9-10). The main goal of Mao was to create industrial China under the centralized government. In the cities, adults were divided into work units and everyone was provided with houses, health care, and education. In the rural areas of the country, peasants which were exploited by the landlords for centuries now had the right to own the land and were called to seize the properties of their lords. It resulted in the clash of classes and ended with the redistribution of lands and the massacre of many landlords (Lardy, 2008, pp. 363-372). New government encouraged the population to provide information about enemies who were against the principles of the regime, in other word capitalists. Under this campaign, communists were able to execute and arrest a large number of possible opponents (Zhang, 1995, pp. 253-254). When the government got rid of “internal enemies”, Mao started socialization of the country. Industrialization was taking place in urban areas, whereas in rural areas peasants were recommended to create cooperatives. Cooperatives meant that several families would unite their lands and work together in order to have more production. Cooperatives resulted in higher income for peasants, thus most of the people were interested to join the process. However, according to Mao, the next step for the development of the agriculture of China was collectivization. Under the collectivization, all fields and agricultural products were owned by the government, and the government decided what part of the production peasant was able to keep for themselves and the rest had to be sold to the government under very low prices. In these circumstances, farmers had to fulfill state plan first and could keep grains only if there were any left (Chang & Halliday, 2005, pp. 478-490).

Collectivization increased dissatisfaction among the majority of peasants, who faced low income and did not have enough products to feed themselves. However, according to Jiang Shixue, the Gini coefficient, which represents the level of the unequal income distribution was 0.16. Based on this coefficient 0 means perfect equality of income distribution, whereas 100 means a high level of inequality (Jiang, 2003, p. 5). Nevertheless, the level of production in the country dramatically decreased, due to malnutrition and other factors that affected peasants' working capacity. However, lack of production was catastrophic only in the rural areas, because peasants, under the pressure of local government were forced to give all grains to the state. Thus, the central authority was not informed about the real situation. Famine and millions of death in the villages coincided with Khrushchev's destalinization process in the Union of Soviet Socialist Republics (USSR). After the death of the General Secretary of the Soviet Union Joseph Stalin in 1953, Nikita Khrushchev replaced Stalin as the actual leader of the country. In 1956, Khrushchev denounced cult of personality of Stalin, which according to him resulted with disunity in the population and the party. He planned to reform policies of Stalin and continue the development according to the ideas of Lenin (Khrushchev, 1956). In order to prevent such events in China, Mao launched a Hundred Flowers campaign. (Goldman, 2008, pp. 242-253).

3.2.1 Hundred Flowers Campaign

In 1956, Mao Zedong encouraged ordinary citizens and intellectuals to openly criticize party and its members, so that the government will be able to fix those problems (Chang & Halliday, 2005, p. 508). Party members were encouraged to criticize colleagues in order to start the campaign. However, the government was not ready for citizens blaming the regime for famine and hunger. Thus, in 1957, Mao Zedong declared that the majority of those who were criticizing the party were rightists and

labeled them as the enemies of the country. It led to the Anti- Rightist Movement, which lasted until 1959. During this campaign, nearly one million activists and party members, who were recently following Hundred Flowers Campaign and according to Mao's will criticized ineffective party members, now became enemies and lost their jobs, were publicly humiliated and sent to prison. Majority of those who criticized openly were intellectuals, professors, and students. As a punishment, they lost their jobs and were forced to do manual labor. From this period, people were reluctant to say something negative about the party, even under the permission of the government (Goldman, 2008, pp. 248-253). In parallel to strengthening the power of the party and creating the cult of his personality, Mao was still concerned with the creation of the strong socialist economy of China. In 1958, he started the Great Leap Forward Campaign, which was aimed to achieve agricultural and industrial development.

3.2.2 Great Leap Forward

Great Leap Forward (GLF) Campaign was organized by Mao Zedong in order to develop the industry of the country in a way that would enable China to catch up with the Western developed countries. The USSR planned to "catch up and surpass" the United States industrial and economic achievements. The focus of the communist party in China was to surpass England in terms of the production of steel and other important industrial goods in fifteen years (Jersild, 2009, pp. 3-4). Thus, the idea behind GLF was to develop an industry based on the collectivization of society. According to Mao, the increase of agricultural products would be planned through mobilization of peasants in the rural areas. In parallel millions of young people were sent to the cities in order to work in small-scale industries and state-owned enterprises. During this period while the government increased spending on industries and workers in the cities, it also resulted in an increase in demand for agricultural products (Lardy, 2008,

pp. 363-372). Collectivization led to the creation of communes in villages and cities. In the villages people were living together, women and men were working the whole day, whereas their children were under the supervision of nurses in the communes (Rohlf, 2010, 197-220). Under high enthusiasm, the government increased the level of grains, which had to be collected from the villages. In return, local authorities wanted to show their dedication to the party, thus they continued to increase the level of production. In practice, it meant that authorities forced farmers to give more grains to the state and leave less for themselves (Peng, 1987, pp. 639-640). During one year, level of agricultural production increased dramatically according to the state plan and holdings, whereas in the rural area it was the start of catastrophic famine, which lasted for years and resulted with the death of at least forty million people (Strauss & Southerl, 1994).

Famine started with regional officials forcing peasants to give all crops to the cities. However, natural disasters exacerbated the situation. The country faced floods and droughts, which also affected the level of harvest. As a result, despite the attempt of regional officials to fulfill the plan, the level of grain production decreased. The central government was not able to ignore both countrywide famine and the decrease in the level of agricultural products (Thaxton, 2008, pp. 292-310).

3.3 Reforms

Before becoming the President of the PRC Liu Shaoqi was Vice Chairman of the CCP. Liu together with Secretary General Deng Xiaoping were supporters of the Great Leap Forward in the mid-1950s. Assistance in the campaign led Liu to succeed Mao as a president of the country in 1959 (Yeap, 2017, p. 252). However, shortly after the

election Liu together with Deng started economic reforms in order to stabilize the situation in the country (Saich, 2001, pp. 34-40).

3.3.1 Reforms of Liu Shaoqi and Deng Xiaoping (1961)

Liu Shaoqi and Deng Xiaoping's economic policies in the period of 1960-1961 were dedicated to the stabilization of agriculture and rationalization of spending in the industrial sector. Under the new plan, the government was prioritizing the development of agriculture over industries. Radical centralized control was abolished allowing farmers to sell their goods in rural areas. Communes were reduced in size and increased in numbers for better management. Household responsibility system was launched, in order to prevent falsification of production level. In other words, if before local authorities were controlling plan of production, now households were guaranteeing a certain amount of products to the government and were able to sell the rest of the goods by themselves (Saich, 2001, p. 39).

In terms of industrial sector, millions of workers were sent back to the countryside in order to work in the fields. With the decrease of population in urban areas, the government adopted strict residence system, making internal migration impossible. Also, the government adopted strict policies under which employees were unable to change their workplace. In return, industries were obliged to take care of their employees. Additionally, the government closed unprofitable industries in the country (Fairbank & Goldman, 2006, pp. 374-376). Reforms had positive effects on the economy of the country within several years. In 1960s GDP of China was around \$70 billion and trade made 6 % of the GDP (WB, 2019). However, policies were criticized by Mao's supporters, who argued that changes are leading to the division of society and benefiting households, intellectuals and skilled part of the population. In these

circumstances, Mao and his supporters believed in the inevitable conflict in society. On the one hand, he wanted to reform the government because he started to lose control of the central government. On the other hand, Mao was influenced by the continuing political liberalization of the USSR after the death of Stalin in 1953 (Chang & Halliday, 2005, pp. 579-583).

3.3.2 Sino-Soviet Split

In December 1949, Mao Zedong visited Moscow in order to meet with Stalin and discuss the future relations of the two countries. During this time, China was in ruins after international and domestic conflicts. Thus, the main aim of Mao's visit was to ask the economic and technological assistance of the Soviet Union. His request was accepted by Stalin and Moscow helped China with financial aids and sent a number of specialists to develop technology and industry (Wilson Center: Digital Archive, 1949). While being two major figures of the communist world, two leaders had differences in the understanding of the communist ideology, thus their relationship cannot be considered as friendly.

Marx and Engel, in their famous work "The Communist Manifesto", analyzed state and society. They considered that the structure of society depends on class struggle. If before it was the hierarchy of feudalism, after revolution classes transformed into bourgeoisie (owner of the production) and proletariat (worker). Thus, they argue that in such class division, one side will benefit at the expense of others. However, exploitation will eventually lead to the proletariat (workers) revolution. In this case, the creation of a communist party is understood as the signal of the increasing dissatisfaction of workers. The Communist party has to support and unite proletariat, in order to overthrow bourgeoisie class. In this case, one of the main aspects of

capitalism, the right for a private property should be abolished (Longxi, 1995, pp. 65-75). Despite the fact that Stalin was the supporter of Marxists theory, he created a different version of the communism as the leader of the USSR. Thus, Stalinism refers to industrial prioritizing, authoritative regime with the absolute power of one man and doctrine of “socialism in one country”. Based on the doctrine, Stalin was not interested in spreading revolutionary ideas to other countries, in spite he was focused on domestic transformations (Miliband, 1977, pp. 138-151).

In terms of Mao, the main differences between Maoism and Marxism are the definition of proletariat and understanding of revolution. For Marx, it was a group of workers in the urban areas, who were exploited by the owners of the factory. For Mao, it was rural peasants who were exploited. In terms of international relations, Maoism was the concept, which called colonized third world countries to rise against exploiters and imperialist part of the world. The second difference is that Mao did not accept one-time revolution to overthrow the bourgeoisie, he believed in the importance of frequent revolutions to strengthen the revolutionary spirit of the society (Shaozhi, 1995, pp. 236-248). Stalin supported the idea of Marx about peasants being unable to organize themselves. He practiced aggressive coercion in terms of collectivization of agriculture (Nove, 1989, pp. 65-75). Mao's revolution and further reformation of the economy were achieved because he had support from peasants. During his speeches, Mao criticized higher classes and invoked peasants to attack warlords and others who had higher status. As a result, two leaders had different ideas toward development. Stalin encouraged education and science in order to create a strong middle class. In China, Mao was often provoking peasants and lower class to attack intellectuals (Crankshaw 1970, 462). The relationship between the two countries started to worsen after the

death of Stalin. As a new leader, Khrushchev officially blamed Stalin's policies as a reason for every problem in the country (Lüthi, 2008, pp. 19-22). This destalinization process could be the threat for Mao's leadership as well, because of the fact that overall Stalin and Mao had similarities in the creation of a cult of personality, terror, and famine. Thus, Mao decided to start a Hundred Flowers campaign in order to evaluate the level of resentment in the country. The campaign resulted in the imprisonment of those who criticized the government (Lüthi, 2008, pp. 25-40). Another change in the principles of the USSR was Khrushchev's support of peaceful coexistence with the capitalist world. For Mao Zedong, it was a betrayal of Marxist ideas (Crankshaw 1970, 470-475). Despite the fact that Khrushchev was continuing to assist the development of China, personal, ideological differences between the two leaders led to the souring of the of Sino-Soviet relations (Lüthi, 2008, pp. 273-300). While the conflict shows split between two main leaders, Mao understood changes in the USSR politics and domestic reforms in 1961 as a threat to Marxist principles. Thus, he started the Cultural Revolution as a preventive measure to save the communist-led regime and central government (Chang & Halliday, 2005, pp. 612-623).

3.4 Cultural Revolution

Mao started his Great Purge in November 1965, later the campaign became known as the Cultural Revolution because purge started in the sphere of culture. Mao Zedong was planning to destroy cultural heritage of the country and blamed that these historical writings, theatrical performances were against communism and they praised imperialism and bourgeoisie. One of the important propagandists of Mao's ideas was his wife, former actress Jiang Qing. As a private supervisor of Mao, she had to deal with the reformation of operas, films etc. Another assistant of Mao was Lin Biao, the army chief, who started strengthening of Chairman's cult of personality in the military.

He published Little Red Book, the collection of Mao's quotations. The book was distributed to schools, universities, and the army (Chang, 2006, pp. 610-620).

According to Mao, the revolution was necessary to attack revisionists and "Khrushchevists", enemies of the Marxist principles, who were interested in bringing back division of society and creation of the elite group. In this time, bourgeoisie group that had to be destroyed consisted of intellectuals (teachers, professors etc.), people from the sphere of culture (actors, writers etc.) and party officials who supported ideas of reforms. The main reason behind this classification was Mao's belief about western and imperial influences in these spheres, which could affect the worldview of citizens. However, in reality, the campaign led to the suspension of the education in the country and intellectuals were publicly humiliated and exiled for work in the fields of the countryside (Wolin, 2010, pp. 109-114). Mao urged young people in schools and universities to stand against their teachers and punish them for the spread of bourgeoisie ideas. For youth, especially from rural areas it was a rare chance to participate in politics and show their ability to become party members and work with the leader. Thus, the call led to millions of protestors in the street who was showing their dedication to the system, beating up their teachers, destroying historical monuments and museums (Chang & Halliday, 2005, pp. 224-227). Meanwhile, Mao had the support of Lin Biao, who now was appointed as the Minister of Defense. Under Lin Biao's rule soldiers of the People's Liberation Army (PLA) became active participants of the Cultural Revolution and gained more political authority. The slogan "Learn from PLA" led to soldier's replacement of former intellectuals. They were in a position to control New Leftist education, student's activity in the cities during the revolution. Overall, soldiers became political commissars of civil institutions (Gray,

2002, pp. 328-333). During the Cultural Revolution, PLA was given more power and was controlling regional governments, radical organizations. However, despite its military power, both in terms of a large number of soldiers and weapons, PLA did not attempt to seize the power from the government. According to Andrew Scobell, PLA did not rebel against the government because most of the respectable elites of the military (Mao himself as well) were part of the ruling government (Scobell, 2003, pp. 109-150). Another important part of the leftists was the Red Guards group. This group was created by radical student activists. At the beginning of the revolution, Red Guards were focused on the demolition of four olds: old ideas, old culture, old customs and old habits (Chang & Halliday, 2005, pp. 627-635). However, Mao and his closest officials lost the control over the group and Red Guards started to invade houses of intellectuals, beat and kill people who could be considered supporters of foreign ideas (Fairbank & Goldman, 2006, pp. 292-293). The situation was stabilized after the government allowed PLA to suppress the Red Guards. Thus, radical students, whose activities were endorsed by Mao Zedong in the past, now became equal to the bourgeoisie and needed to be re-educated. In December 1968 People's Daily published Mao's opinion about campaign "sent-down youth", which meant that educated students from the cities were sent to villages. According to Hu Angang, Mao explained that re-education of youth in the rural areas will prevent future revisionism in society and will cultivate the new revolutionary generation (Angang, 2017, p. 80).

Despite the failure of the goal to create the new revolutionary generation, campaign for re-education had positive effects on society. Students who were sent to villages contributed to the development of rural areas. They introduced technologies from the cities, helped to increase literacy, etc. One of the achievements was the improvement

of the health care system, due to "barefoot" doctors from the cities and the increase of the level of medicine due to centralized communes (UNDP, 1999).

Parallel to the changes in society, Mao was planning to reform the government as well. From the beginning of the Cultural Revolution, a number of party members and high ranking party officials were persecuted and imprisoned as "revisionist" and "anti-communist". The main reason for the imprisonment of the officials was their critique about Mao's Great Leap Forward campaign and further reforms in order to stabilize the situation. President Liu Shaoqi was taken under home arrest in 1966, expelled from the party and removed from the presidency in 1968. After less than one year in prison, he died because of illness. Meanwhile, Deng Xiaoping was exiled to the Jiangxi province, to work as the regular worker in the tractor factory (Chang & Halliday, 2005, pp. 528-613). Starting from 1968, the campaign "Sort out Class Ranks" led to the cruel execution and imprisonment of party members. As a result, in 1969, 9th Party Congress delegates were selected based on their loyalty to the Chairman. After the reshuffle in the party, 84 percent of the Central Committee were new members and half of them were army men (Chang & Halliday, 2005, p. 664).

During this period of Mao's cult of personality and victory over the opponents, the relationship between China and USSR worsened and led to the complete break of the communist alliance. According to the book of Jung Chang and Jon Halliday, the reason for the conflict was Mao's attempt to show its leadership and power not only domestically but also in the communist part of the world (Chang & Halliday, 2005, p. 548). Mao ordered the attack on a small uninhabited island Zhenbao in the Ussuri River, which for that time was disputed territory between the USSR and PRC. The

attack was ordered in March, before the 9th Congress in April 1969. It was the first party Congress after the Cultural Revolution. Thus, while he established unquestionable leadership domestically, Mao planned to show his superior role in the communist part of the world by declaring about the attack on the USSR during the Congress. However, USSR responded with the more aggressive attack on the territories of China. As tensions escalated Mao Zedong understood the possibility of USSR intervention or bombing nuclear test sites of China. Thus, after a year of critical tension, the relationship between the two countries was restored to the ambassadorial level (Chang & Halliday, 2005, pp. 548-551). Conflict in 1969 put an end to the alliance of the two biggest communist countries. While Mao wanted to become the world's revolutionary leader, China was still in need of alliances because the country was weak both economically and technologically. However, other communist countries, such as Cuba, Laos, and Vietnam were on the side of the USSR, thus Mao's attempt to overcome USSR superiority failed and China became isolated from the communist world (Chang & Halliday, 2005, pp. 572-576).

3.4.1 Sino-American Relation

For Mao, isolation of China led to the reconsideration of priorities. Thus, at the beginning of the 1970s, China reestablished the Sino-American relationship, and now in contrast to his “destroy imperialism” slogan, Mao was interested in cooperation with the capitalist country. For China, a new alliance meant the creation of the strong opposition to the USSR, the transformation of the country's role in the international arena and aids for technological and industrial development (Chang & Halliday, 2005, pp. 579-589). For President Richard Nixon this cooperation was the opportunity to reform the US foreign policy approach (Kissinger, 2011). Additionally, the US was interested in cooperation with one of the most important communist countries, because

of the Cold War with the USSR. During the negotiations, both the US and PRC were more focused on the creation of cooperation with remaining ideological disagreements. However, in the field of international relations, the fact of cooperation itself, together with Nixon's visit to China proved that the US recognized the PRC (Chang & Halliday, 2005, pp. 582-585). From the 1960s, Albania was annually introducing a resolution to expel ROC from the UN Security Council. Due to the US support of the ROC, the resolution was denied every year before 1971. In October 1971, the UN passed resolution 2758 (XXVI) and recognized PRC as the only representative of China in the UN. Thus, PRC replaced ROC and became a permanent member of the UN Security Council (General Assembly, 1971).

Cooperation between the two countries has cooled down after the Watergate scandal and following the resignation of Richard Nixon in 1974. Watergate scandal broke in 1972 when five men were arrested for burglary in the Democratic National Committee headquarters at the Watergate apartment. Two years of investigations revealed a number of violations of law, illegal wiretapping and abuse of power of president Nixon, who was forced to resign (Schudson, 2004, p. 1232). During this period, Mao had a series of health issues, thus he could not actively participate in the country politics. His closest ally during the Cultural Revolution, Ministry of Defense Lin Biao, who was considered as his successor died in an airplane crash in 1971 (Chang & Halliday, 2005, pp. 559-560). The second candidate to replace Mao was Premier Zhou Enlai. He played one of the most important roles in the reestablishment of Sino-American relations. However, when in 1973 the US and USSR signed the Treaty for the Prevention of Nuclear War, for Mao Zedong it became clear that the US used China in order to reach cooperation with USSR. Thus, Zhou Enlai, who was leading

negotiations, was the first one to blame (Vogel, 2011, pp. 76-80). Zhou was found an enemy of the country and died because of health issues.

Thus, almost all of Mao Zedong's associates in the party died or were killed because of Cultural Revolution brutal campaigns. Deng Xiaoping who was invited back from the exile was the only possible candidate because he was comparatively young, never really opposed Mao and was not radical. He was the first official of PRC who gave the speech in the UN. (Vogel, 2011, pp. 120-157).

However, on 4 April 1976, during the Qingming Festival, the traditional day for Chinese people to pay homage to their ancestors, people went to Tiananmen Square to commemorate Zhou Enlai. The event turned to protest and criticism of Mao Zedong. The protest was suppressed by the "Gang of Four" and army (Pantsov & Levine, 2015, pp. 295-298). Radical Maoists, so-called "Gang of Four", included Mao's wife Jiang Qing, and political activists Yao Wenyuan, Wang Hongwen, and Kang Sheng. "Gang of Four" was the group of Mao's radical supporters, who played one of the main roles during the Cultural Revolution and was responsible for imprisonment and death of thousands of people during that time (Chiu, 1981, p. 57).

The protest during Qingming Festival was named counterrevolutionary and Deng Xiaoping was accused as the leader of the protest. Thus, for a short period of time, from April to October 1976, Deng was removed from all leadership positions again, and Mao replaced Deng with Hua Guofeng as his successor (Pantsov & Levine, 2015, p. 299).

3.5 Conclusion

Under the leadership of Mao Zedong, the economic model of the PRC was a centrally planned economy. The market was under strict control of the central government. The communist party provided the population in the cities with works in the SOEs and houses. In rural areas, the government became the owner of agriculture products, facilities, and land. Peasants were organized into communes and worked under the control of the local government. In parallel, Mao Zedong was strengthening his power and created a cult of personality through a number of campaigns against anti-communists in the population and in the party. Because of his cult of personality party members and regional governors praised his strategies, and lied about the results of campaigns, thus ignoring the suffering of millions. Despite the low level of production, income distribution inequality was comparatively low as well. Based on the article of Jiang Shixue, before 1980s reforms rate of the Gini coefficient was 0.16.

In 1962, when the real effects of the GLF became obvious, the government decided to end the campaign and blame the weather conditions for the famine. At the same time, Mao Zedong left the office of the president of PRC, giving more power to the newly elected President Liu Shaoqi. Liu Shaoqi and Deng Xiaoping implemented economic policies, which opposed the principles of communism, such as abolishing of communes and bringing back landlordism and allowing peasants to sell their products in the market. In terms of industry, they closed unprofitable factories and sectors. Overall, President Liu Shaoqi and Secretary General Deng Xiaoping were able to stabilize the situation after the GLF. However, Mao Zedong did not support reforms and was afraid that these changes will subsequently lead to the transformation of the ideology, as it was experienced in the USSR with Khrushchev and his destalinization.

Thus, he launched the Cultural Revolution, which again resulted in millions of death, the purge of the party and the strengthening of Mao's cult of personality.

In terms of the foreign relations, Mao put an end to the alliance with the USSR and reestablished a relationship with the US. Cooperation of the US and China led to the recognition of PRC in the UNSC as the only representative of China. Deng Xiaoping was the first official representative of the PRC to give a speech at the Special Session of the UNSC. The speech became historical because after a long time of isolation China was declaring its position. In contrast to Mao's ambitious aim to become a superpower in the world, Deng underlined that China will never seek to be a superpower and will leave struggles for hegemony to USSR and the US, whom he defined as the biggest international exploiters and oppressors (Deng X. , 2003).

Chapter 4

ECONOMIC REFORMS OF DENG XIAOPING, SOCIALISM WITH CHINESE CHARACTERISTICS. 1978-1992

The chapter is dedicated to analyzing economic and political reforms in China under the leadership of Deng Xiaoping. It will focus on the period from 1976 until 1992. The chapter will explain China's transformation from the planned economy to socialism with Chinese characteristics. In addition, the role of Deng Xiaoping's economic policies and the results of these policies will be included. The analysis will include Deng's return to power, the project of "Four Modernizations", the Tiananmen Square protest and his resignation. During the period of reforms, the composition of the government changed a number of times. However, Deng Xiaoping was the "paramount leader" with power without holding the top office and was able to control reforms of economy and politics. Therefore, the chapter reflects only the most important figures during the transformation and does not include an analysis of all high ranking officials of that time.

4.1 Return to Power

During the last years of Mao Zedong, Politburo Standing Committee (PSC), committee that includes top leaders of the Communist Party, consisted of members of the "Gang of Four" and Hua Guofeng. According to Dittmer, despite their important positions in the government, the role of "Gang of Four" was similar to a

royal advisor whose plays depended on the favor of the crown (Dittmer, 1978, p. 42). Hua Guofeng was also loyal to Mao's ideology, however, he did not support radical views of the "Gang of Four". After the death of Mao Zedong, Hua became both Chairman of the party and Premier of the PRC. He arrested the group members and brought Deng Xiaoping back to the government (Vogel, 2011, pp. 186-188). Hua was relatively new in the government and he created an alliance with Deng and Ye Jianying (Marshal of PLA) in the Politburo. However, Deng and Hua had different plans for the industrialization of the country. Hua Guofeng was loyal to the ideas of Mao and argued, "whatever policies Mao had made should be resolutely defended, whatever instructions Mao had given should be steadily abided by" (Fontana, 1982, p. 239). On the other hand, Deng Xiaoping was supporting economic reforms and opposing political reforms (Shirk, 1993, p. 4). After his return, Deng Xiaoping, became the informal leader of the country, while Hua Guofeng had the official title of the Chairman but did not have power and influence in the government. According to Dittmer, this difference between Deng and Hua can be understood in terms of formal and informal power. Formal power means power received because of the rank, position in the government. Informal power can be understood as a personal influence, even without status (Dittmer, 1978, p. 29). In the case of China, Hua Guofeng was invited to the party leadership based on his loyalty to Mao, while in reality he did not have experience in governing and did not have the status of a revolutionary as Mao Zedong and Deng Xiaoping (Vogel, 2011, pp. 184-185). Another reason for Hua's isolation was the fact that Deng brought back old party members, who were purged during the Cultural Revolution and the Great Leap Forward (Goldman, 1994, pp. 26-29).

According to Merle Goldman (1994), “over three million officials, scientists, intellectuals and skilled workers who had been imprisoned, detained or suffered persecution returned to public life” (p. 28).

Massive rehabilitation transformed the political ideas of the country. Thus, while acknowledging the catastrophic consequences of past campaigns, people started to question Hua Guofeng and his idea that the country should follow Mao’s policies. As a result, Hua delivered a presentation in which he criticized government actions during Mao, criticized his own policies, agreed to restore reputation of officials who died during the Cultural Revolution and to serve in the government according to party ideas, even if he has completely opposite view (Vogel, 2011, pp. 236-237). Hua Guofeng became the nominal leader of the government in 1978. During the Third Plenum, the party accepted the five-year plan of Deng Xiaoping, while rejecting the ten-year strategy of Hua. Thus, Deng became the paramount leader of the country and in the following years, he limited positions of Hua Guofeng in the party. Economic plan accepted during the Third Plenum was the beginning of Deng Xiaoping’s “Four Modernizations” process (Committee, 1982, pp. 181-184).

4.2 Four Modernizations

During the Third Plenum, in 1978 Deng Xiaoping declared that in order to achieve modernization, the government should accept “Four Modernizations” project and start reformations in four spheres: agriculture, industry, science and technology and national defense (Deng, 1984, pp. 96-98).

4.2.1 Agriculture

Modernization of agriculture started with the reforms of the management system. Thus, the commune system was replaced with the Household Responsibility System

(HRS). The idea of HRS was to allow farmers to borrow lands for cultivation. According to the HRS, individual farmers have to fulfill certain quotas for harvest and keep remaining goods for themselves (Zhang & Chang, 2016, pp. 14-15). The HRS was accepted by the government only after the production team in Anhui provinces unofficially used the system and proved its effectiveness. The system led to an increase in the level of production and helped to solve the problems of poverty and starvation (Lin, 1988, p. 201).

Another reform of the government was the implementation of a gradual transformation from the planned economy to the market economy. Starting from 1979 the government decreased the list of products that were under state monopoly and reduced the quantity of state monopoly purchase. Thus, the reform meant that while the state quotas are low, farmers were allowed to sell more in the open market. However, the government was observing the balance of the market price (Zhou, 2017, p. 32). According to Zhou, the government was reforming important agricultural products more gradually than other goods. The second principle was the fact that the government was able to stop the reforms during the poor period and restart after stabilization (Zhou, 2017, p. 33).

In 1982, the government allowed to reestablish communes and collective workplaces into the township and village-owned enterprises (TVEs). Government divided TVEs into four types according to the ownership by county and township, village, farmers, and individuals or family (Harvie, 1999, p. 3). In contrast to state-owned enterprises (SOEs) TVEs were not focused on the production of only certain goods, rather they were able to produce both agricultural and manufactured products according to the demand of the society. Secondly, TVE workers worked for the salaries and bonuses

according to the profit of the firm, whereas SOEs had to provide their workers with houses, health care etc. (Vogel, 2011, pp. 445-447). The TVEs became an important part of the country's economy. The number of TVEs rose from 1.52 million in 1978 to 22.03 million in 1995. Gross output value increased from 49.3 billion RMB to 6891.5 billion RMB in 1995. Also, the total number of workers increased from 28.27 million people in 1978 to 128.6 million in 1995 (Harvie, 1999, p. 19).

According to Barry Naughton (2007), TVEs succeeded because of the abundant low skilled labor and low wages in the countryside. Secondly, first TVEs were able to use the advantages of the newly opened market and produce miscellaneous consumer goods that were not produced before. Third, TVEs had lower formal taxes, were able to ask capital from the banks (in this case the local government was guarantor) and credit institutions that were adopted to support TVEs. Fourth, the main TVEs were located in suburban or coastal areas. Fifth, TVEs did not have the uniform organizational structure as SOEs, because of their flexibility they had more opportunities in the market (pp. 275-281). In terms of SOEs, with the start of reforms and decentralization, the government was not able to finance the enterprises. The government officials had an influence on the central and commercial banks. During the reforms in the 1980s, China had central bank People's Bank of China (PBOC) and four commercial state banks. Later the number of banks increased with the establishment of joint-stock banks and foreign banks (Minxin, 1998, pp. 322-324). During the period of reforms, SOEs were still getting loans. However, not because of the economic perspectives in the future, but based on the influence of government officials (Minxin, 1998, pp. 327-328).

4.2.2 Industry

After the death of Mao and the start of reformations millions of youth, who were sent to work on the fields returned to the cities. Because of the decrease in the government budget, state-owned enterprises could not employ them. Cities faced an increasing level of unemployment and consequently crime level increased as well. Thus, Deng Xiaoping allowed individual household enterprises (IHEs).

Also, the Chinese government changed its unitary fiscal system, where the central government had absolute control over the budget and revenue from the cities to a decentralized fiscal system. According to the new fiscal system, local government received more control over the finance of the city and was obliged to send only part of the revenue to the central government (Lin. Y. & Liu, 2000, p. 2). However, some regions became more decentralized than others. Thus, coastal regions had less influence of the central government in comparison to other regions. Those more decentralized coastal regions were transformed into the Special Economic Zones (SEZs) (Crane, Albrecht, Duffin, & Albrecht, 2018, p. 99).

4.2.2.1 Individual Household Enterprises

Under the IHEs program, youth were able to open shops, restaurants and other little businesses. However, in order to avoid contradictions with the communist ideology of the country Deng and his supporters required that the head of IHEs should not have more than seven employees. In this case, the owner of the IHEs cannot be considered as a capitalist, because according to Karl Marx definition, a capitalist is a person who had eight employees and exploited the labor of others. Nevertheless, later owners of enterprises were allowed to employ an unlimited number of employees (Vogel, 2011, pp. 448-449).

4.2.2.2 Special Economic Zones

In 1978 the government launched Open Door reforms, to test the efficiency of the market-oriented economy under socialism (Zeng, 2010, p. 8). The experiment started after the creation of the special economic zones (SEZs) in the coastal provinces with a low level of central government interference and comparatively low economic development. The main reason for testing the Open Door reforms in the coastal region was that the provinces were located near to overseas Chinese business communities in Hong Kong, Macau, and Taiwan. The Chinese government was interested to strengthen economic ties with these regions in order to create the ground for the further reunification of China (Ge, 1999, p. 45). According to Zeng SEZs are geographically demarcated areas with single management. Also, special zones have separated customs area and more liberal economic laws (Zeng, 2010, p. 4).

First SEZs were opened between 1979 and 1980 and due to comparatively low-cost labor force attracted a number of manufacturers, especially from Hong Kong, Macau and Taiwan (Ge, 1999, p. 45). The great success of the project was obvious in 1981 when the number of FDIs in first four SEZs became 59.8 percent of total FDI in China (Zeng, 2010, p. 9). Starting from 1984 the government decided to adopt different types of SEZs in neighboring provinces. New types of SEZs included high-tech industrial development zones, free trade special zones, economic and technological development zones and others (Zeng, 2010, p. 10).

In 1979, the government accepted the first law on FDIs, allowing the creation of equity joint ventures (EJVs). EJVs can be defined as limited liability business associations in which Chinese and foreign companies receive equity shares; profit and managerial

power of each party depending on its level of investment. Furthermore, the government implemented another contract, taxation, and foreign exchange laws in order to stimulate FDIs to China (Potter, 1995, pp. 160-163). However, in order to attract more investors from different countries, the government decided to increase regulations of FDIs. Therefore, in 1986, the government adopted the law for foreign-owned enterprises (WFOEs). The law allowed the creation of a limited liability company, which will be owned by the foreign company and will be independent of the interference of the Chinese government (Potter, 1995, pp. 160-164). Further, in 1988 the government accepted the law about contractual joint ventures (CJVs). According to Potter each partner in the CJVs performs certain tasks and subjected to the joint management committee (Potter, 1995, pp. 160-163).

Creation of special zones led to the rapid development of the economy of the coastal region. For instance, first SEZs were established in Shenzhen province and from 1980 to 2008 county's GDP increased from \$14 million to \$114.47 billion. Per capita income increased from \$122.34 to \$13,196.21 (Yuan, et al., 2010, p. 58). In parallel to economic development, the success of SEZs led to a number of indirect benefits to the region, such as labor training, technology transfer and export diversification (Zeng, 2010, p. 4).

However, the industrial development of the coastal region had a number of negative consequences. For instance, while most of the SEZs were situated in the coastal area, rapid industrialization increased inequality between the regions. A measure of income inequality, the Gini coefficient increased from 0.30 in the early 1980s to 0.45 in the mid-1990s (Xie & Zhou, 2014, p. 6930). However, the rise of inequality does not affect the overall poverty level. In contrast, from the late 1970s till the early 2000s number

of poor people in the rural areas dropped from 250 million to 28.2 million. The problem in China is the fact that the income of the rich population is growing faster than the income of the comparatively poor part (Angang, Linlin, & Zhixiao, 2005, pp. 59-62).

4.2.3 National Defense

Most of the government officials including Deng Xiaoping criticized the management of the PLA, arguing that in the past Lin Biao, Minister of National Defense under Mao, was using PLA soldiers in the propaganda of the Cultural Revolution. Thus, according to the reforms PLA should be organized according to the needs of the battle and not based on political and ideological interests (Joffe, 1987, pp. 559-560). Deng Xiaoping declared that PLA has to focus on quality, not quantity. Thus, from 1985 till 1987 the number of soldiers in the army was reduced by 1 million, and 50 percent of staff in the military organization was dismissed (Zhiqiang, 2005, pp. 369-392).

The main part of the reforms affected the structure of the People's Liberation Army and Chinese Defense Industrial Complex (CDIC). CDIC was an important state-owned enterprise focused on weapons production. The enterprise was developed based on Soviet technologies, and because of the economic crisis in the country and Sino-Soviet split during Mao's rule industry was left with old technologies. The PLA was the main consumer of CDIC productions. However, when the reformations started, it became clear that the government cannot invest in the production of modern weaponry. Thus, the government gave the PLA economic freedom, so that the latter will make the profit and import modern military technologies from abroad. The PLA started businesses in different spheres, medicine, hotels, transportation, and communication. With the increase in the level of imported weaponry, CDIC faced a decrease in demand for military products. Thus, CDIC started production of nondefense goods in parallel to

weapons (Frankenstein, 1999, pp. 187-206). As a result, reforms during the Deng Xiaoping era led to the stagnation of the defense industry. In 1996 only 10 percent of defense industry production was military products, the rest of the production was focused on civilian goods (Gill & Frankenstein, 1996, p. 396).

4.2.4 Science and Technology

During the period of Mao Zedong, intellectuals were labeled as the bourgeoisie, elite group that saw themselves in the upper position. As a result, almost all of the universities were closed and scholars were either sent to rural areas to work on the fields or stayed in the cities but changed their professions. Thus, when Deng Xiaoping declared science and technology (S&T) as part of the “Four Modernizations” project, it meant reestablishing of the education system and the rehabilitation of the status of intellectuals (Deng, 1978). In general, the development of S&T can be divided into two parts: education and technology.

4.2.4.1 Education

After the success of the household responsibility system, the government applied the same strategy to the schools. According to the Constitution of the PRC adopted in 1982, the government encouraged regional enterprises and social groups to finance and initiate types of educational activities (art. 19, § 1).

In general, it led to the division of schools into two categories: elite schools, mainly located in the cities, and low-level schools in the rural areas (Bakken, 1988, p. 132). In order to encourage the rural population to finance their local schools, the government started publishing examples of successful rural entrepreneurs. The idea was to help rural peasants to develop well-organized enterprises and fund their local schools because they acknowledge the importance of education for their children

(Bakken, 1988, p. 129). However, the new strategy faced several problems. First, under the self-financing system schools started to adopt fees and school supplies became more expensive. As a result, peasants from poor rural areas could not afford education for their children and since family income depend on the level of work, children started to leave schools in order to help their parents (Pepper, 1990, p. 79). Second, while in the past teachers received their payments in terms of the percent from the production of communes, now their income depends on the funding of the school. Teachers started to move to neighboring counties with well-funded schools or change their profession and work in responsibility enterprises and SOEs. Thus, citizens of the poor villages did not have the enthusiasm to spend money in the education, if at the end their children will have comparatively low knowledge (Pepper, 1990, pp. 149-150).

In 1986, the government accepted Compulsory Education Law and determined nine-year education as mandatory for every child. However, it had little effect on the inequality between rural and urban students, because based on the quality of education most students from poor villages have little chance to pass national examinations and continue their education (Oyeniran & Uwamahoro, 2017, p. 39).

University students and scholars were seen as the intellectuals who will lead the country's rapid economic and industrial development. Thus, starting from 1978 Deng Xiaoping launched an exchange program with the US for students and professors. According to this program, every year 3, 000 intellectuals had the opportunity to continue their education in the US and return to the country with new knowledge (Zweig & Rosen, 2003). Overall, from 1978 till 1988 government sent more than 50,

000 students to 70 countries (Pepper, 1990, pp. 167-168). After a few years, it became clear that students are reluctant to return, which meant that the country is losing its intellectuals. The government was trying to solve the problem by introducing new visa regulations for exchange students in the US. However, the changes did not have an effect on those who had already entered the US. On the other hand, scholars who were in China and suffered from little funding of the education system argued that in order to encourage students to return, the government has to attract them with better accommodations. This idea of creating better conditions for the students, who returned from abroad, especially from the US, had two consequences. First, those students that returned from the US received most privileges: better houses, cars, and jobs. Students who received their degree from other foreign countries were in the second place, and students trained at home were in the last place (Pepper, 1990, pp. 170-172). Second, the exchange program in Western countries changed student's perception of communism and democracy. Thus, while after their return they were obliged to share their knowledge with domestic students, they started to introduce the advantages of capitalism as well. Students, who were already facing problems of inequality and corruption in the system became disillusioned, which resulted in the Tiananmen Square protests of 1989 (Cheng, 2009, pp. 33-35).

4.2.4.2 Technology

Before four modernizations and open door policy China was isolated from the world's technological developments. Despite the fact that the government was funding research institutions, scientists had limited equipment and knowledge to evaluate their theoretical findings. Thus, after the start of reforms, the government was in need of import of technologies from abroad (Naughton, 2007, p. 356). Thus, according to Samuel Ho, "between 1980 and 1989, approximately one-third of China's rapidly

expanding import consisted of machinery and other technological equipment” (Ho, 1997, p. 85).

Another way for the technological development of the country was in cooperation with Multinational Corporations (MNCs) and the open door policy for foreign direct investment. In 1984, China agreed to establish a joint venture with Belgian Bell. In this case, the company received the first entrant right in the Chinese market and in return launched training for local engineers. The same agreement was reached with a number of other MNCs focused on the production of technologies (Naughton, 2007, p. 358).

4.3 Tiananmen Square Protest

The government faced an increasing level of student’s demonstration years before the events of 4th June in 1989 on Tiananmen Square. What was the reason for these demonstrations? Even though economic reforms led to a huge success in terms of the overall country’s economy and industrialization, decentralization led to a high level of corruption among government officials (Pepper, 1990, p. 173). Dissatisfied people were demanding freedom of the press, democracy, and resignation of government officials for mistakes and illegal actions (Pantsov & Levine, 2015, p. 408). Hu Yaobang, General Secretary of the CCP of that time, was Marxist but supported freer political system and he published several cases of corruption and started the investigation of the high ranked officials involved in these cases. However, under the pressure of other leaders, including Deng Xiaoping, he was unable to finish his anti-corruption program (Evans, 1994, pp. 276-277). Nevertheless, one of his allies, Hu Qili member of the Politburo made a speech on the 1st of May in 1986, encouraging intellectuals to distance themselves from outdated Marxist concepts and called for

more democracy and reinforcement of the rule of law. As a result, some of the intellectuals who had experience of living in the US started the tour around the universities talking about human rights and democracy. It led to a number of student's demonstrations around the country at the end of 1986 (Gruver, 2016, p. 11). However, protests finished in January 1987, with government launching "anti-bourgeois liberalization" campaign. According to Deng Xiaoping, democracy can be developed only gradually without copying of the Western system. He argued that bourgeois liberalization will lead to the end of the party leadership and will result in the chaos in the country with one billion people (Gruver, 2016, p. 12). Hu Yaobang left the position of General Secretary of the CCP. The government accepted the law that prohibited students to protest. If before demonstrations Deng Xiaoping supported separation of politics from the spheres of economy and science after the protests government restarted the propaganda of socialism in the country. The party members started meeting with the local population in different regions (Pepper, 1990, pp. 175-176). However, the second protest started after the death of Hu Yaobang on 15th of April 1989. Initially, students gathered on Tiananmen Square in order to march in memory of Hu. When students decided to camp in the square they attracted other groups of citizens, who were dissatisfied with the economic situation in the country (Goodman, 1994, p. 106). Students wrote petition with a list of their demands: to clear the name of Hu Yaobang, to end "anti-bourgeois" campaign, to release information about the wealth of party leaders and their families, to allow freedom of speech and freedom of press, to increase funding of education, to increase salaries of intellectuals, to allow street demonstrations (Evans, 1994, p. 290). On 26th of April, People's Daily magazine published an official government position about the demonstration. According to the magazine, Deng believed that the students were manipulated by a smaller group of

bourgeois liberals (Goodman, 1994, p. 109). As a result, the government's position only escalated the situation. The number of protesters increased and they refused to leave the square even during the visit of the USSR leader of that time, Mikhail Gorbachev.

The visit took place from 15th till 18th of May. It was the first visit of the USSR leader to China, after the Sino-Soviet split in the 1960s. However, a number of ceremonies were canceled because of the protestors. In contrast, the crowd welcomed Gorbachev and praised his reforms in terms of free speech, such as "glasnost" in the USSR (Evans, 1994, p. 293). After Gorbachev's departure, Deng Xiaoping ordered troops to clear the Tiananmen Square from protesters and open fire on anyone who will resist (Goodman, 1994, p. 110). Army arrived at night from 3rd to 4th of June. The confrontation between the army and civilians later turned into the massacre of the demonstrators. According to the government, the number of killed civilians were in between 200 and 300 people. However, based on the Chinese Red Cross and declassified government documents the number of people killed during the massacre varies from 2, 000 to more than 10, 000 people (Lusher, 2017).

4.4 Retirement

After the tragedy, the level of FDIs and imports of technology and goods decreased because Western countries condemned military actions against civilians and imposed sanctions on China. For Deng Xiaoping, it was the right time to introduce the new generation of the country leaders. Thus, in November 1989 Deng resigned from his last position as the Chairman of the Central Military Commission (CMC). Jiang Zemin replaced Deng Xiaoping and became the Chairman of the CMC and the General Secretary of the party. Deng chose Jiang as his successor because the latter aimed to

continue economic reforms and for the citizens, he was a new politician who was not involved in the Tiananmen massacre (Vogel, 2011, pp. 643-645). In 1991, Deng went to the coastal cities and met with local governments. During the tour, Deng saw how SEZs helped to develop certain areas, whereas cities without SEZs were still in a poor condition. Thus, he called to continue economic reforms and expand the territory of the special zones to Shanghai and inland cities. Deng declared that the “Four Modernizations” project should be continued. He underlined that it is acceptable if certain areas, provinces will get rich faster than the rest. He believed that richer areas will later financially assist others. Also, Deng declared that China opposes hegemonism and will never seek to become hegemony (Deng, 1994). Another important point in his speech was about FDIs. According to Deng as long as China has a large number of SOEs, there is no reason to be afraid of foreign investments and joint ventures (Deng, 1994, p. II). Deng’s speech encouraged investors to restart FDIs into the country. According to Naughton, the second rapid increase of the FDIs can be understood by the fact that the Chinese government proved its loyalty by creating a strong institutional infrastructure. Secondly, investors were interested to increase FDIs because the government increased selectively opening its domestic market to foreign companies (Naughton, 2007, p. 403). Following the growth of FDIs and further economic reforms, other countries started to relax their sanctions on China (Vogel, 2011, p. 680).

4.5 Conclusion

Under the leadership of Deng Xiaoping China faced rapid economic development and became part of the international community. Deng insisted on the importance of immediate reforms because he saw that in terms of economic development China was far behind its neighboring countries (Chang, 1988, p. 194). Thus, the new government

adopted a more liberal economic model. In rural areas, peasants were allowed to borrow lands for cultivation. Communes were transformed into TVEs, which could produce both agricultural and manufactured goods. Also, the central government decreased the list of products that were under the state monopoly. As a result, farmers started to send less to the government and sell the rest of the harvest by themselves in the market. In terms of the industry, the government allowed small businesses in the cities and a decentralized number of coastal regions. These regions became SEZs with lower taxes and more liberal economic policies in order to attract FDIs. The spheres of national defense and science faced decentralization as well. As a result, reforms in agriculture, industry, national defense and science led to rapid economic development. Due to the economic rise number of the poor population decreased from 250 million to 28.2 million from the 1970s till the early 2000s. On the other hand, the Gini coefficient rose from 0.30 in the early 1980s to 0.45 in the mid-1990s. Thus, the population faced widening income inequality. Overall, the central government decreased its control of the market and economy, whereas preventing the political changes and suppress of opponents. According to Deng, the new economic model of the country can be considered as “Socialism with Chinese characteristics”. According to this model, the government adopted elements of the market economy, however, the political power remained on the hands of the Communist Party.

Chapter 5

CHINA UNDER THREE GENERATIONS OF GOVERNMENT. 1992-2017

This chapter is dedicated to the analysis of the economic and political reforms after the era of Deng Xiaoping. During the leadership of Deng, in 1984 the constitution of the country was amended and positions of President and Vice-President were re-established. According to the Constitution of 1984, Art.79 President and Vice-President cannot serve more than two five-year terms (Zhang L., 2018). Thus, after Deng Xiaoping, China had three generations of governments. The aim of the chapter is to analyze the economic and political reforms of each generation of government. In parallel to the analysis of the domestic reforms, the chapter will include an overview of China's foreign policies and initiatives.

5.1 Jiang Zemin Leadership (1992- 2002)

Jiang Zemin and other new government officials, which came to power in 1992, represented third generation leaders. In this case, the period of Mao's leadership was considered as the first generation, and second generation government referred to the time of Deng Xiaoping's reforms (Oksenberg, 2001, pp. 29-30). According to Lampton, while Mao and Deng had personal and experiential credibility as leaders, following three generations leaders are constrained by the collective decision making and public opinion (Lampton, 2014, p. 65). Nevertheless, successful reforms of the third generation of leaders led to the rapid economic development of the country during the period from 1992 until 2002 (Walter & Howie, 2012, p. 4).

5.1.1 Financial Reforms

By the beginning of the 1990s, China faced a financial crisis as a result of banks giving loans for inefficient projects and bankrupt SOEs. The fundamental problem in the sector was the absence of strong regulation and existence of the influence of the local government officials, which led to a high level of corruption (Hongying, 1999, p. 541). In 1980s central government gave more autonomy to the local authorities and the idea of decentralization was to create competition between regions, thus leading to rapid economic development. However, reforms led to the creation of more powerful regions, whereas the central government lost its power and was not able to control the financial sector (Hongying, 1999, p. 549). Thus, the second wave of reforms was to reestablish control of the central government and isolate the financial system of the country from the influence of the local officials. In general, reforms led to the division of banks into different categories and acceptance of the new laws for banks and the financial sector (Wen, 2015, p. 5). In 1995, the government accepted the law on commercial banks. According to the law, the central bank of the PRC, People's Bank of China (PBOC) and four commercial banks were given more autonomy. Thus, PBOC was given the right to conduct independent monetary policy under the leadership of the State Council (Yang, 2004, p. 129). Four commercial banks were obliged to conduct business according to the principles of efficiency, safety, and liquidity. Also, under the new rules banks were responsible for their operations, profit and losses (Wen, 2015, p. 6). Additionally, in order to decrease the political influence in the financial and economic spheres, in 1998 the central government authorized the withdrawal of the PLA from the commercial activities. This reform decreased corruption and monopoly of the military officials in certain business areas (Hongying, 1999, p. 549).

Stock markets, which were closed after the creation of PRC in 1949, were reestablished under the reforms of Deng Xiaoping in 1990. However, the stock markets started its relatively stable functioning only in the second half of the 1990s (Marszk, 2014, pp. 342-343). In general, stock markets were established with the main purpose to finance SOEs. Due to the government control of the stock market, SOEs were getting privileged access to loans, credits in contrast to private businesses. Thus, during the third generation of the government Chinese stock market was relatively underdeveloped in comparison to self- regulated stock markets of other developing countries (Naughton, 2007, pp. 473-477).

From the mid-1990s central government started the project “let the small go”. According to the project, the government remained the owner of the large 500 SOEs and let the small enterprises to be leased, sold or closed (Garnaut, Song, & Yang, 2006, p. 37). Despite the decrease of the number of SOEs, government assistance in terms of debt write-off, an injection of 360 billion RMB between 1997 till 2000, SOEs continued to be the vulnerable part of the Chinese economy (Moore & Wen, 2006, p. 281). Chinese GDP reached \$ 390 billion. Also, the level of FDIs started to increase and made 6, 18 % of the GDP (WB, 2019). Thus, in 1993 China became the largest recipient of the FDIs among developing countries (Yang L., 2019, p. 9). In parallel, half of China’s foreign trade based on importing, processing and export of foreign goods. Thus, foreign trade of China became dependent on exports of foreign firms, which invested in the country due to cheap labor (Gaulier, Lemoine, & Unal-Kesenci, 2007, pp. 210-211).

5.1.2 Political Reforms

In 1998 Jiang launched the campaign of Three Stresses. According to the campaign, party members, intellectuals, students, and entrepreneurs were encouraged to study politics, and righteousness (Dittmer, 2003, pp. 109-110). Based on these ideas, party officials began to study the works of Mao Zedong, Deng Xiaoping, and Jiang Zemin. In parallel, they started to write self-criticism and criticize colleagues and the top leader. Jiang Zemin used the campaign to warn regional officials about the power of the central government. Thus, the campaign resulted in the arrest of several top parties and government officials, who were later sentenced to death for corruption (Hepeng, 2004, p. 267).

The second step in the Three Stress campaign was to spread Jing's theory of the "Three Representatives" (Wong & Yongnian, 2001, p. 14). According to the theory of "Three Representatives", the CCP must represent advanced industry, culture and the interest of the majority of the population (Hepeng, 2004, p. 261). The real meaning of the theory became clear after the speech of Jiang Zemin in 2001, July 1. In the speech dedicated to the eightieth anniversary of the party, Jiang proposed that the criteria for the party membership has to be broader and should include members of the middle class and bourgeoisie class, such as private businessmen and managers (Dittmer, 2003, p. 110). The speech was important because according to the new politics, capitalists were able to be part of the communist party. If from the one side the step was criticized as damage to socialism in the country, on the other hand, supporters of Jiang's reform argued that businessmen became an important and powerful part of the society. Thus, it is better to include them in the party, rather than let them develop as a separate group, which could be a threat to the power of the party (Wolf, 2001).

5.1.3 International Relations

In terms of international relations, the third generation of government was able to make China member of the WTO and return to Hong Kong and Macau, regions that were under the control of foreign countries.

5.1.3.1 WTO

China became the 143rd member of the World Trade Organization (WTO) on the 11th of December in 2001 (WTO, 2001). After 15 years of negotiations, China became a member of the WTO and started trade according to international regulations. Prior to the entrance to the WTO China fulfilled a number of requirements of the organization, such as deduction of tariffs, elimination of export subsidies, etc. According to Penelope Prime, China received a number of advantages from the membership in the WTO. First, accession to the WTO let the government of China continue reforms in the domestic market of the country. Based on the requirements of the WTO, the central government eliminated subsidies of the inefficient SOEs, and by the entrance of the foreign banks in the financial sector, the government was able to decrease corruption and number of ineffective loans from the domestic banks, due to the increasing competition in the field. Secondly, membership in the WTO allowed China to attract more FDIs and be part of the high-tech revolution in the world. Thirdly, China increased its exports, based on the principles and regulations of the WTO. Moreover, China received the Most Favored Nation (MFN) status after the entrance to the WTO. Although China already had MFN status in the trade with the US, prior to the accession to the organization, the US was annually reviewing the necessity to renew status of the MFN of China (Prime, 2002, pp. 30-31).

However, there are ongoing debates about the status of China in the organization. According to the WTO rules, there is no clear definition of developed, developing and less developed countries. Thus, the member announces for itself whether it is developed or developing country. Developing countries have special benefits, such as a longer transition period and technical assistance from the developed countries (WTO, n.d.). China has the status of a developing country in the WTO. While at the first years of accession, China was given privileges in order to catch up with developed countries, later debates about the fairness of special treatment for countries as China is increasing (Bosco, 2011). However, according to the Chinese government officials, membership of China in the WTO was beneficial to everyone in the organization. Thus, they argue that developed countries benefited from the increasing export to China under the provisions of the WTO, whereas for developing and least developed countries China became the biggest export market. Overall, since 2002 China contributed 30 percent on average per year to the global economic growth (Xuequan, 2018).

5.1.3.2 Hong Kong

Hong Kong became part of the United Kingdom because of the Treaty of Nanking, signed by the United Kingdom and Qing dynasty in 1842. Treaty was the result of the Opium War, which lasted from 1839-1842. In 1898, China leased the New Territories, one of the main regions of Hong Kong, to the UK for 99 years under the Convention of Peking. (Chan, 2003, pp. 493-499). For communist China, returning of Hong Kong was not only about the unification of the country, but ideological interest to return land from imperialist, capitalist power. Although negotiations for the unification of China and Hong Kong started in 1982 under the leadership of Deng Xiaoping, it resulted in the unification of two lands only in 1997. With the expiration of the lease for the New Territories, the UK returned Hong Kong to China under the status of the special

administrative region of PRC. The status of the special administrative region (SAR) was offered by Deng Xiaoping under the principle of “one country two systems”, at the beginning of negotiations in 1984. According to the principle, PRC agreed that Hong Kong will continue its social and political system, which was completely different from that of China until 2047 (Goodman, 1994, p. 100). This means that Hong Kong has autonomy in economic policies. It has an independent trade system, including an independent tariff system and export quotas.

5.1.3.3 Macau

Macau is the peninsula with two small islands, located near to Hong Kong and PRC. Macau was occupied by Portugal in 1535. As a result of trade between Macau and Portugal, the number of Portuguese started to increase, which resulted in the agreement between China and Portugal on the lease of Macau to the latter. According to the agreement, Portugal was obliged to pay taxes and an annual rent to China. However, after the defeat of China in the First Opium War in 1842, Portugal seized full control over the territory, ceased any payments and expelled Chinese officials in 1849. In 1887, under the Sino- Portuguese Treaty, Macau became Portuguese “perpetual occupation”. After the Portuguese Colonial War in 1974, Lisbon offered to withdraw from Macau according to Portuguese new decolonization policy. However, China declined the offer and Portugal changed the legal status of Macau to “the territory under Portuguese administration” (Chan, 2003, pp. 495-498). In 1979, according to the secret agreement between PRC and Portugal, Macau was defined as a “Chinese territory under Portuguese administration”. The negotiations for the transfer of Macau to the special administrative region of China began in 1986. The negotiations between China and Portugal were more quick and smooth in comparison with the negotiations between China and the UK over Hong Kong. As a result of the negotiations, Macau

became the special administrative region of China, with autonomy over its political, social and economic systems in 1999 (Ghai, 2000, pp. 186-187).

Both Hong Kong and Macau became members of the WTO in 1995, separately from mainland China. Thus, they have the autonomy to create their own trade relations with other countries. Hong Kong has its own currency Hong Kong Dollar and independent monetary policy. Investments from Hong Kong to PRC is treated as a foreign investment, and in the case of disputes, international rules are applied (Cheng, Lu, & Findlay, 1998, pp. 104-105).

5.2 Hu Jintao (2002-2012)

Fourth generation government was introduced during the Sixteenth Party Congress in November 2002. Seven officials replaced third generation leaders in the Politburo Standing Committee, which is considered as CCP's decision-making center on major policy issues (Miller, 2011). Hu Jintao replaced Jiang Zemin as the General Secretary of the Central Committee of the Communist Party of China on November 15th, 2002. In 2003 Hu replaced Jiang as the president of the PRC and in 2005 he succeeded Jiang Zemin in the latter's last position of Chairman of the Central Military Commission. Thus, Hu Jintao became the new paramount leader, who held three main positions in the government (Lam., 2006, pp. 3-15). Hu Jintao was the follower of the open door policy who continued economic reforms of Deng Xiaoping. Nevertheless, the period of his leadership is known for its ideological reforms, fight to decrease the gap between rich and poor parts of the country and the transformation of Chinese status in the international arena.

5.2.1 New Ideology

“Three representatives” principle of Jiang Zemin was criticized by the intellectuals and party members because the idea to allow capitalists to be part of the CCP was deemed contradictory to the core principles of Marxism. Thus, the fourth generation represented by Hu Jintao needed to change the ideology of their predecessor. However, based on the party principles, Hu Jintao was not able to reject the past ideology, because it would be understood as the weakening of party unity. Thus, in parallel to following the established “Three principles” new government changed the interpretation of the principle. According to the fourth generation, CCP should extend membership criteria in order to involve and work for the majority of people, workers. As a result, during the period of leadership fourth generation was focused on the role of the middle class, whereas the concept of the elitist group of private entrepreneurs, who represented capitalists lost its relevance (Holbig, 2006, pp. 18-24).

Another important ideological contribution of Hu Jintao was regarding the country’s political and economic position in the international arena and domestic problems. Hu Jintao declared that China is focused on ‘building a harmonious world’. According to Yongnian Zheng and Tok, under the idea of ‘harmonious world’ China is declaring about its willingness to become an active member of international community and undertake more duties in international relations (Zheng & Tok, 2007, p. 9).

The same position was emphasized in the government strategy to solve domestic issues. Overall, the ideological focus of fourth generation leaders was the creation of a “harmonious society”, where government’s position was to handle conflicts and compliances in the population by consultation and reconciliation with economic and legal methods (Lam., 2006, p. 252).

5.2.2 Economic Changes

In terms of the economic situation in the country, the GDP of China reached more than \$1 trillion. Trade made 60 % of the GDP, whereas export reached its maximum and made 36% of the GDP (WB, 2019). The number of private enterprises reached 3 million and the number of individual businesses increased to 23,53 million in 2003. At the same time, more than 226,000 foreign enterprises were established (Kanamori & Zhao, 2004, p. 23).

However, the fourth generation inherited from the previous government problems of the high level of corruption and wealth distribution inequality. According to the Corruption Perception Index (CPI) 2002, China scored 3.5 out of 10 on the list of 102 countries. In the CPI score, 10 refers to the lowest level of corruption, whereas 0 score means that the country has an extremely high level of corruption (Transparency International, 2002). Thus, Hu Jintao identified income equality and fight against corruption as the main priorities of the government focus (Hu, 2007, pp. 20-28). As a result, until 2012 600,000 people were punished for violation of party and government disciplines. Among 600,000 people, 60 were high-level officials. In parallel, the government launched investigations to stop bribery in construction and other projects (Xinhua, 2012). However, according to the results of the CPI 2012, despite the efforts of Hu Jintao's administration, level of corruption at the end of the fourth generation government period stayed at the relatively same position. The CPI for 2012 was marking countries from 0 (high level of corruption) till 100 (low level of corruption) and list of counties increased to 176 countries and territories. China scored 39 out of 100, meaning that the country still suffers from a high level of corruption, and the

problem cannot be eliminated in the comparatively short period of time (Transparency International, 2012).

As it was mentioned in the previous chapters, after the start of reforms the level of poverty decreased dramatically. According to Hu Angang, Hu Linlin, and Chang Zhixiao, the number of people living in poverty decreased from 280 million in 1990 to 124 million in 1997. In other words, during this period poverty decreased by 55.7 % (Angang, Linlin, & Zhixiao, 2005, p. 60). During the fourth generation government, the Chinese poverty rate was falling rapidly. However, the problem was in the fact that the standard of living of the poor population is ameliorating slower than the rapidly growing income of the rich part of the population. Per capita, household income of the poorest 10 percent of the population increased from 876 RMB in 2002 to 1282 RMB in 2007, in other words, income increased by 46 percent. However, per capita income of the richest 10 percent of the population increased from 16,795 RMB in 2002 to 32,628 RMB in 2007, meaning income of the rich people increased by 94 percent (Sicular, 2013, p. 2). The Gini coefficient was increasing till 2008 and achieved 49.1 and started gradually decline after the financial crisis, reaching 46.2 in 2015. Li Shi gave several reasons for the narrowing gap between rich and poor people in China. First, the main reason for improving income distribution was government policies to increase the income of rural and low- income citizens. From 2006, rural households were exempted from agricultural taxes and fees. Right after the entrance to the WTO, the government started to subsidize farmers, in order to prevent economic shock in the first years in the WTO. Second, in order to deal with the shock from the international financial crisis in 2008, the government released stimulus package of 4 trillion RMB and invested in the infrastructure projects, thus creating jobs and financial stability to

unskilled workers. Third, with the employment opportunities in the infrastructure projects, the level of migration to urban cities increased. The growth of income increased migrants' remittances to rural areas. In addition, the government improved and expanded social protection programs in rural areas (Li, 2016, pp. 86-88). However, during this period China became the largest recipient of the FDIs in the world and received \$53 billion. According to Gilboy, in contrast to other rising Asian economies, China is not protecting its domestic market. Instead, China is allowing foreign firms to create new markets for their goods and weakening position of the domestic firms. This tendency can make Chinese market dependent on the FDIs. Because, in the case of other rising economies, such as Japan, in parallel to the increasing level of FDIs, the government protected and strengthened its domestic firms (Gilboy, 2004, pp. 36-37). According to Robinson, by 2005 inward stock of FDI to GDP was 36 % and nearly third of the industrial output was generated by transnational corporations. Thus, Robinson argues that it is wrong to consider that Chinese domestic firms are rising to compete with Western corporations. In contrast, TNCs are competing with each other in order to merge with domestic firms, which have access to the government. In this way, we can see that the Chinese capitalist group is becoming part of the elite transnational capitalist class (Robinson, 2015, p. 10).

Hu Jintao and his administration of the fourth generation gradually stepped down from the main positions in the government with the election of the new members to the Politburo Standing Committee at the 18th Party Congress in 2012.

5.3 Xi Jinping (2012)

In comparison to the third generation government, the fourth generation and Hu Jintao himself handed over the government to the fifth generation under the leadership of Xi

Jinping in the short period of time and did not influence politics after his retirement (Lam, 2006, p. 42). In contrast to Jiang Zemin and Hu Jintao, Xi's ideological foundation and political status are compared to Mao Zedong and Deng Xiaoping, due to his support for more radical economic reforms than his two predecessors (Buckley, 2018).

5.3.1 Ideology

Fifth generation government was elected during the 18th Party Congress in 2012. They continued propaganda of socialism with Chinese characteristics. Yet, in contrast to previous leaders, Xi was able to develop his cult of personality. While government tightened control of media and internet, the level of propaganda through songs, videos and banners praising the leadership of Xi Jinping increased (Jiayang, Taisu, & Ying, 2016). This step was considered as Xi Jinping's attempt to consolidate his power (Buckley, C., 2016). In 2017, during the 19th Party Congress, Xi underlined the importance to formulate new thoughts on socialism with Chinese characteristics. During the Congress party members agreed to include "Xi Jinping Thoughts on Socialism with Chinese Characteristics for a New Era" to the constitution of the party and later, in 2018, to the constitution of the country (People's Daily, 2018). While all leaders, starting with Mao Zedong incorporated their ideologies in the constitution of the party, only Mao and Deng's ideas are included with their name. In addition, the term "thought" has a higher status than "theory". Thus, Xi's thought became equal to Mao's thoughts and higher than "Deng Xiaoping Theory" and underlined the power of Xi Jinping (Katsuji, 2017).

5.3.2 Political Reforms

From the beginning of his term, Xi declared about the dominant role of the party in the country. Within the party, Xi established leading groups with broad jurisdiction, which

became the most important and decisive bodies in different spheres. According to Kerry Brown (2016):

Xi Jinping has been nicknamed ‘the Chairman of Everything’. Of the eight best-known and most influential leading groups, he is chair of four. Not surprisingly, these four are the most wide-ranging in the jurisdiction. He sits, for instance, as chair of the Leading Group of Overall Reform. He is also inaugural head of the newly established National Security Commission. In addition to this, he chairs the groups for Foreign Affairs and Taiwan Affairs. This means that for the broadest menu of social, political, security and diplomatic issues, he has the most central role (p. 28).

On 17th of March 2018 National People’s Congress reappointed Xi Jinping as president and Wang Qishan as Vice- President without term limits. Prior to the reappointment, Congress made amendments to the constitution of the country and removed the two-term, ten-year limit for President and Vice- President (Huang, 2018). Historically, the presidency was not the main position in China, leaders were practicing their power with the combination of three positions: General Secretary of the CCP, Chairman of the Central Military Commission and, President of the PRC. While the first two positions do not have term limits, the ten-year limit for president was suggested by Deng Xiaoping and accepted with the constitutional amendments in 1982 (1982 Amendments). During their period of leadership Jiang Zemin and Hu Jintao, similarly to Deng agreed to step down from all their leading positions after the end of presidential terms (Huang, 2018). Currently, Xi Jinping is considered as the most powerful leader since Mao Zedong (Bodeen, 2018). Also, more than one hundred billionaires, CEOs of technological industries, became members of the legislature and other leading positions in the government. Thus, billionaires are becoming an important part of the central government under the leadership of Xi Jinping (Chan, 2018).

5.3.3 Economic Reforms

In 2013, during the 18th Party Congress, Xi Jinping declared that the fifth generation government would continue the economic reforms. The main policies included eliminating re-education through labor camps, decreasing state role in allocating resources by increasing the role of the market forces, encouraging private investments to SOEs, while the state will remain the owner of the enterprises and eliminate corruption in the government (Kroeber, 2013).

In recent years, the government revived re-education through labor camps. Based on the government reports, through these labor camps, it attempts to eradicate Islamic terrorist activities in the western region of the country. However, various international organizations and countries criticized China for the violation of human rights. According to these critics, the Chinese government is detaining over one million Muslim populations in camps and forcing them to give up their language, culture, and religion and embrace Mandarin language and the ideology of the communist party (The Washington Post, 2018).

According to the Human Rights Watch report, in parallel to labor camps, the government organized strict control of the ethnic minority population in the region. The military is controlling electronics of the population, prohibiting all religious practices and forcing to participate in the political ceremonies of the communist party. Over one million officials and police officers are monitoring the population and allowed to stay at home of the people if needed. According to the report, despite the rising criticism of foreign governments and international institutions, they cannot

influence the central government of the PRC, due to its role in the UN system (Human Rights Watch, 2018).

In terms of the SOEs, according to 2017 statistics, China has the largest state-owned sector with 51,000 SOEs that worth 29.2 trillion USD dollars and approximately 20.2 million employees. For comparison, the second country in the list of countries with the largest SOE, Hungary has 370 SOEs (Kane, 2017). With the simplification of business registration, the number of private companies opened during 2014-2016 increased from 3.99 million to 13.62 million. In 2018, the number of business entities increased to 18 million. 14 million of these entities are registered as private businesses (NBS, 2019). GDP rose by an average annual rate of 7.2 percent during 2013-2016 and was around \$12,23 trillion. In 2017, trade represented around 37 % of GDP, in which import represented around 18 % and export made more than 19 % of GDP. In 2018, the FDIs made 1,37 % of GDP (WB, 2019). However, according to Ali and Guo, most of the FDIs to China is from other rising Asian countries. This can be due to the fact that foreign investments from neighboring countries are export-oriented, whereas investments from industrial countries are interested in the access to the domestic market of China (Ali & Guo, 2005, p. 22). Additionally, the Chinese average contribution to world growth during 2013-2016 was about 30 percent, which makes China the largest contributor to the world economy (Xinhua, 2017). Another important achievement of China under the administration of Xi Jinping is that the country became one of the largest economies in the world by producing 23.1 trillion USD dollars in economic output (Amadeo, 2018).

However, the country still has the problem of income distribution inequality. Although Gini coefficient decreased from 0.47 to 0.46 (CEIC, 2018, p.25), top one percent of rich people own third of the country's wealth, whereas 25 percent of the poorest population owns only one present of wealth (Tiezzi, 2016).

5.3.3.1 Anti-corruption Campaign

From the beginning of his term, Xi started the biggest anti-corruption campaign, which resulted in imprisonment and investigation of many high and low ranking officials. Since 2012 more than one million party officials were punished and more than 400 central administrated senior officials were investigated (Xinhua, 2018).

However, the anti-corruption campaign was criticized internationally as an attempt of Xi Jinping to purge his opponents. According to the new supervision law, the government created Supervision Commission, which can investigate and punish government officials and people working in the government sectors for illegal actions and detain them to the period of six months without charge and legal process. According to Amnesty International, this practice of the Chinese government is a violation of human rights. Another concern is that the new Commission held by the Communist Party is ranked higher than the Supreme People's Court. Thus, the new structure gives more power to the CCP and Xi Jinping, in terms of investigation and punishment (Amnesty International, 2018). According to Transparency International corruption perception index, between 2012 and 2017 China was able to increase its score from 39 to 41. Despite the gradual success, China is still considered as the country with the high level of corruption (Transparency International, 2018).

5.3.4 Foreign Policy

During the 19th National Party Congress, October 2017, Xi Jinping underlined the new role of China in international relations. He declared that while China became rich and strong it will move closer to the center stage and contribute to mankind. Also, Xi Jinping declared that since China was able to develop without imitation of Western values, it gave another option for developing countries to develop without losing their independence (Buckley & Bradsher, 2017). Thus, Xi declared that the role of China in the new era of socialism with Chinese characteristics will change and the country will play important role in international relations.

One of the examples of Chinese attempt to become the leading actor in the international arena was its active initiatives about climate change under the Paris Agreement. Although taking into account the environmental vulnerability of China, the country is interested in the environmental project; still one of the reasons of its active participation is considered as an attempt to replace the US and spread its dominance in the clean energy sector and global climate governance (Zhang, Dai, Lai, & Wang, 2017, pp. 223-224).

5.3.5 Belt and Road Initiative

Belt and Road Initiative (BRI) is considered Chinese ambitious investment projects in developing countries in Europe, Africa, and Asia. Investments are focused on infrastructural projects, such as the construction of roads, railways, ports, and airports. Under the BRI China is launching projects in different countries on credit. According to the Chinese government, infrastructural projects will assist on the economic development of the developing countries, and with the increase of trade and market, these countries will be able to return the debt (Swaine, 2015, pp. 3-16).

For Weidong Liu and Michael Dunford (2016), the BRI is seen as an alternative to the Washington Consensus. The new project is considered to have win-win outcomes for all participants. Politically, the initiative welcomes everyone, respects the sovereignty and does not have political conditionality. They argue that through this project China is trying to create a new global platform, where economic cooperation will be beneficial for more people (p. 325). On the other hand, critics of the BRI argue about negative sides of the initiative for the developing and less developed countries and neocolonial interest of China. Thus, in his trip to China, newly elected prime minister of Malaysia Mahathir Mohamad declared about the importance of cooperation between the two states but underlined the importance to avoid the creation of a new version of colonialism. He explained that in order to prevent colonialism, where poor countries cannot compete with the rich ones, both sides have to be interested in the fair trade (McGregor, 2018). However, based on the statistics, 23 out of 68 BRI countries are highly vulnerable to debt distress, whereas eight out of these 23 countries are in danger to have debt sustainability problems (Hurley, Morris, & Portelance, 2018, p. 16).

Concerns about the debt problems increased when in 2017 Sri Lanka gave control over its strategic port Hambantota and 15,000 acres of land around it to China on a 99-year lease, because of the inability to repay its debt (Abi-Habib, 2018). Based on this case, critics of the BRI and number of BRI countries started to worry about the threat to the sovereignty of the countries and criticized the debt-trap diplomacy of China (Gopaldas, 2018). However, it is difficult to analyze the Chinese reaction to debt distress in BRI countries. Because there is no guiding multilateral framework and China is dealing

with the problems through bilateral agreements and terms differ from country to country. In addition, the terms of the agreement or the results of the cooperation, data are not always promulgated (Hurley, Morris, & Portelance, 2018, pp. 15-20).

The BRI is seen as one of the ambitious undertakings in human history, which can improve living standard for more than half of the world's population (Holmes, 2018). In parallel, China has its own interest in the initiative. First, BRI can be considered as China's geo-strategic tool. One of the examples, China is interested in the new ways of foreign energy supplies. China imports oil from more than 15 countries and transportation of the energy was through Strait of Malacca, in Southeast Asia. China was concerned about its vulnerability, taking into account territorial disputes, pirate attacks on oil supplies and geopolitics. Thus, under the BRI China is constructing inland corridor with Pakistan's port Gwadar. Gwadar can give China access to the Persian Gulf (Shaikh, Qiang, & Ying, 2016, p. 254). Secondly, China is pursuing an economic interest, such as integration with neighboring countries, improving the domestic industry in parallel exporting Chinese standard and solving the problem of excess capacity (Cai, 2017, p. 6). The Chinese government is interested in integrating inland less developed regions of China with neighboring countries. These regions suffered from lack of private companies and the existence of inefficient SOEs. Thus, instead of financial support of the SOEs, the government decided to integrate them into regional economies by opening corridors to other countries (Cai, 2017, pp. 6-7). For instance, according to the chairman of Chinese home appliance giant TCL Li Dongsheng, "thanks to the Belt and Road Initiative, around 47 percent of our sales volume came from overseas markets last year. The initiative offers us a good platform to go global". (Xinhua, 2019).

Another interest of China is to spread Chinese technological standards through infrastructural projects in other countries. Sometimes financial institutions suggest borrowers accept Chinese goods as a condition to extend credits. One of the best examples can be Chinese high-speed rail sector. The government of China marketed its high-speed rails to Thailand, India, Indonesia, and Malaysia. As a result, China produced more than fifty percent of the worlds' high-speed railways. Thus, Chinese technological standards can become de facto standards of the high-speed rail sector (Cai, 2017, pp. 9-10). In 2008, China announced a \$ 586 billion stimulus package for the SOEs. The idea was to prevent a recession in the country. However, it led to excess capacity in a number of industrial sectors, such as the production of steel, cement etc. In order to solve the problem of a supply glut, under BRI China is moving its production facilities to other countries. The government is underlining that the primary goal is to help other countries to develop their economy. According to Cai, in this way, China is transforming its domestic liabilities into foreign economic and diplomatic assets (Cai, 2017, pp. 12-13).

5.4 Conclusion

During three generations of governments, the country continued economic reforms. The three generations continued greater economic opening, encouraged private businesses and closed inefficient SOEs. Thus, the economic model during this period can be considered as a market economy. In terms of politics, the central government allowed membership of businessmen at the party. As a result, during the fifth generation of the government, more than 100 billionaires became part of the leading government commissions. In terms of the income distribution inequality, the Gini coefficient reached its maximum of 0.49 in 2008 and decreased to 0.46 in 2017.

Despite the decrease in the income inequality rate, the widening gap between poor and rich parts of the population remains the main problem.

In addition, mainly during the leadership of the fifth generation, China changed its foreign policy. Xi Jinping declared about Chinese ability and willingness to assist in the development of other countries. Based on the new strategy, China started a number of infrastructural projects in more than 60 countries. On the one hand, there is no other country which can finance such a grandiose initiative. On the other hand, critics argue about the debt trap diplomacy of China and its ability to rent strategic places in these 60 countries for a long time, as a payment for the debts.

Chapter 6

ANALYSIS

The main purpose of the research was to analyze the development strategy of China and answer the question of whether the economic rise of China represents an alternative to the neoliberal world order. The hypothesis of the research was based on the transformationalist view of globalization. In contrast to skeptics, transformationalists argue that globalization is a phenomenon, which can affect the politics and economy of all countries. Transformationalists argue that under globalization countries are able to transform their domestic policies, ideas, and culture, by adopting certain principles of other countries in order to adapt to globalization. They argue that both developed and developing countries are facing the transformation of their principles and ideas due to the globalized world. However, in contrast to hyperglobalists, transformationalists argue that states are not losing their role in the world. The states remain main actors in the international arena, however, they are sharing their power with international, regional and other institutions. Under the institutions, states are creating global standards in order to enhance cooperation among countries (Held, McGrew, Goldblatt, & Perraton, 1999, pp. 487-489).

Works of Giovanni Arrighi and David Harvey were accepted as one of the main scholarly works, which contributed to the analysis of Chinese development. Arrighi in his work “Adam Smith in Beijing; lineages of the twenty-first century”, comparatively analyzed the development process of China and the USA, based on the works of Adam

Smith. According to Arrighi, Smith considered the development process of imperial China as 'natural' market economy, because the government of China, in the eighteenth century, started the development process from the sphere of agriculture. Another important point is that when China reached high-level equilibrium trap, in other words when the market reached its maximum level of production in the given territory, the government did not expand its market through colonization of other territories. In contrast, the government was more interested in peaceful coexistence with its neighbors (Arrighi, 2007, pp. 24-25). In terms of the Western countries, they were able to pass the high-level equilibrium trap, by expanding its market through colonization of new territories. In this case, the Western development path is considered as 'unnatural' or capitalist, because the government was driven by the individual interest of the elitist group, businessmen. In this context, Arrighi argues that even if China is transforming into a market economy, it cannot be considered as capitalist, because the economy is not driven by the elitist group, which can influence the government decision. According to Arrighi, despite the reforms started in the 1980s in China, the communist party - still has a decisive role in the market and represents the interest of the country, not the capitalists or certain elite groups (Arrighi, 2007, pp. 62-92). Thus, Arrighi argues that the rise of China can be considered as an alternative to the Western-led neoliberal world order. In contrast to Arrighi, David Harvey in his book 'Brief History of Neoliberalism' argues that Chinese rise is the result of incorporation of neoliberal elements into the economy of the country. According to Harvey, from the start of the economic reforms in the 1980s government incorporated privatization and deregulation of the market. One of the results of the reforms is the widening gap between rich and poor in China, which represents the creation of an elite group with more benefits (Harvey, 2005, pp. 144-150). The government became one

of the largest economies, due to the deregulations and opening the market to the new businesses. In this case, Harvey argues that the development path of China is similar to the development path of Western countries. The country is developing due to deregulations and the creation of conditions for the businesses. Thus, the government is not representing the interest of the working class and poor part of society. Furthermore, Harvey underlines that under the Bush administration and onward, the US is moving toward neo-conservatism. According to Harvey, neo-conservatism includes the same economic principles as neoliberalism. However, neoliberalism stresses the importance of individualism, whereas in practice individualism can lead to chaos in society. Thus, neo-conservatism tries to save social unity and morality, through increasing military strength of the country in order to protect the country from possible enemies. In this case, Harvey argues that even authoritarian regime and propaganda of communist party in China does not oppose Western development principles of neoliberalism, which is backed by the authoritarianism of neo-conservatism (Harvey, 2005, p. 205). Overall, Harvey argues that the economic rise of China cannot be considered as an alternative to the Western development path. My assessment of the post-Mao Chinese development supports the argument of Harvey, that the Chinese development path represents 'Neoliberalism with Chinese characteristics' (Harvey, 2005, p. 151).

The second part of the thesis was focused on the explanation of neoliberalism and analysis of the Washington Consensus. The main aim was to understand what neoliberal development path implies. The concept of neoliberalism became popular in the 1980s, mainly in the UK and the USA. According to Steger and Roy, neoliberalism can be defined by the D-L-P formula. In other words, deregulation of the economy,

trade and industry liberalization, and privatization of state-owned companies (Steger & Roy, 2010, p. 14). Harvey argues that under neoliberalism the government has to protect and secure property rights, free market, and trade. In the fields where the market does not exist, the government has to create a market through privatization (Harvey, 2005, p. 2). Thus, in the 1980s under neoliberal principles, Margaret Thatcher in the UK and Ronald Reagan in the US started deregulation, liberalization and privatization processes. They launched privatization of state-owned enterprises in the field of water, electricity, airlines etc. In parallel government started to emphasize the effectiveness of individualism in the society, in contrast to the welfare state and collectivism. This period of neoliberalism in the UK and the US was defined by a decrease in the level of social spending of the government and weakening of the position of labor unions. Because of the reforms, both countries faced a widening gap between rich and poor parts of society (Osborne, 2013; Rattner, 1981).

In the 1980s when Latin American countries faced a debt crisis; the US together with Western-led institutions, such as IMF and WB, offered to decrease the amount of debt if the countries apply neoliberal policies. The US, IMF, and WB approved the Washington Consensus, set of ten policies, to be implemented in the Latin American countries (Sims, 2013). According to the founder of the policies, Williamson, in its original form, the WC consisted of policies in terms of fiscal discipline, public expenditure priorities, tax reforms, financial liberalization, management of exchange rates, trade liberalization, increase foreign direct investment, privatization, deregulation of the domestic market and secure intellectual property rights (Williamson, 1994, pp. 26-28). Overall, the WC policies did not lead to the economic development of the Latin American countries but resulted in a widening of the gap

between rich and poor, creation of the elite group and increasing level of corruption in the government. A number of scholars declared that the uniform package of policies applied in different countries is one of the main reasons for the negative results of the WC. According to Berr and Combarous, statistically, countries, which strictly followed the WC policies, faced a higher level of poverty and inequality than those countries, which applied the WC policies selectively (Berr & Combarous, 2007, p. 539). Overall, the WC and neoliberal policies of the Western countries provoked many debates but generally were recognized as an ineffective path for the economic development of developing countries.

As it was determined, the focus of the thesis is to analyze the economic development strategy of the People's Republic of China starting from 1949. Thus, the following three chapters were dedicated to analyzing economic and political policies during five generations of the government of China. Under the first generation of government and leadership of Mao Zedong, China had implemented a centrally planned economic model. Thus, the central government established state-owned enterprises in the cities, and the commune system in the rural areas (Lardy, 2008, pp. 363-372). With the creation of state-owned enterprises, workers in the urban areas and migrants started to work in the industrial factories. In rural areas, farmers were encouraged to create collectives. Under the collectivization, the government became the owner of lands, grains, and facilities of farmers. Workers had to fulfill state quotas for grains and could own the rest of the products (Chang & Halliday, 2005, pp. 478-490). People were provided with houses, health care etc. In parallel, Mao launched a number of campaigns in order to strengthen the revolutionary spirit of the population. China under Mao faced a number of campaigns, which resulted in the purge of a number of

government officials, the death of millions and stagnation of the industrial development of the country. Overall, Mao created an authoritarian government and cult of personality, most of his supporters and possible successors were sent to prison or died in prison. In terms of the economy, in 1960s GDP of China was around \$ 70 billion. Export of goods and services made around 3% of the GDP. Trade made only 6% of the GDP. However, despite the low level of production and stagnation of the economy, the Gini coefficient prior to the 1980s reforms was 0.16. In other words, the country under the centrally planned economy did not achieve rapid economic development, but income distribution inequality was low.

After the death of Mao Zedong, Deng became the paramount leader of the country (Vogel, 2011, pp. 186-188). Under the leadership of Deng Xiaoping, the government adopted elements of the market economy. The 'Four Modernization' program focused on the modernization of agriculture, industry, science and technology and national defense. Overall, modernization meant a decrease in the government role in all these spheres and encourage competition and self-finance. Thus, in agriculture, the government decreased the level of quotas for the products, as a result, peasants were able to sell most of the harvest in the market by themselves. Moreover, the government allowed the creation of the township and village enterprises and household responsibility system. This type of enterprises was owned by the local government and peasants and was independent of the central government. Another distinction of TVEs from SOEs was the fact that the former can produce different types of goods. Under the household responsibility system, peasants were allowed to borrow lands from the government for cultivation. Thus, TVEs and HRS resulted in an increase in production, because under the new initiatives income of peasants were increasing in proportion to

the level of production (Naughton, 2007, pp. 270-285). In parallel, the government allowed the creation of SEZs in the coastal regions in order to modernize the industry. SEZs gained more independence from the central government in terms of regulation of FDIs, taxes and other economic policies. It resulted in a high level of FDIs from Hong Kong, Taiwan, and other countries (Ge, 1999, p. 45). With the success of the first SEZs, the government opened different types of special economic zones in other regions. New investments and industries led to the rapid development of the industrial sector in the country. In parallel government established IHEs. Under the individual household enterprises program, individuals were allowed to open restaurants and markets in the cities (Vogel, 2011, pp. 448-449). On the one hand, reforms led to a decrease in the poverty level in the country. On the other hand, under the new policies, the country faced an increasing level of inequality between regions. Most of the SEZs were located in the coastal regions, thus the population in these regions faced rapid economic growth, whereas economic development in other regions was relatively slow. From the early 1980s till the mid-1990s, the Gini coefficient increased from 0.3 to 0.45 (The World Bank, 2013, pp. 1-3). In other words, starting from the 1980s, China experienced a higher level of inequality in terms of income distribution. Modernization of national defense resulted in the decentralization and marketization of the defense industry. After the start of reforms, the government was not able to finance national defense. Thus, the army was allowed to participate in the market, create businesses in the spheres of transportation, hotels, and restaurants. The army was able to import modern machinery for the profit from their businesses. In this case, enterprise, which was focused on the production of military products, faced a decrease in demand for its productions (Frankenstein, 1999, pp. 197-205). Thus, the enterprise started production of civilian goods. In these circumstances, the main negative effect

of the reforms in the defense industry was the weakened position of the country in terms of production of the military equipment (Gill & Frankenstein, 1996, p. 396). In the case of science and technology, the country was able to catch up with the rest of the world due to the import of technology from abroad and allowing MNCs enter the Chinese market in return for the training of local engineers. Other reforms were launched in the sphere of education; a certain part of the population in the rural and urban areas was able to increase their level of income due to TVEs, HRS, and IHEs. Thus, in order to improve the education government started to encourage population and local governments to finance local schools. The level of finance was based on the economic development of the regions. Thus, the cities with rapid economic development were able to finance schools and attract best teachers, whereas the inland regions, with slower economic development, experienced a brain drain. As a result, regions faced inequality in terms of education (Bakken, 1988, p. 132). In addition, the government launched an exchange program, under which students and scientists were sent to other countries to gain experiences. However, most of the students refused to return to the country after the departure. Intellectual in China argued that in order to motivate students to return the government has to improve conditions for them. It led to inequality among intellectuals; students, who studied in the US received the best positions, better houses, cars, etc. Students who returned from other countries were in second place. Students who studied at home were the least privileged (Pepper, 1990, pp. 170-172). Overall, under the leadership of Deng Xiaoping, China faced rapid development of economy, industry, science, and agriculture. However, with the start of reforms, China faced increasing inequality of income distribution. A certain group of people, such as government officials, households with first mover advantage in the new market, citizens in the coastal regions were able to get more benefits from the

opening of the market, than the rest of the population. This group became extremely rich, while the rest of the population faced little increase in their income.

Jiang Zemin replaced Deng Xiaoping and became the leader of the country under the third generation government. The new government continued economic and political reforms of the second generation. In general, the third generation continued adoption of the market economy and limited the role of the government in the economy. China was still suffering from a large number of inefficient SOEs. In the 1980s, due to the influence of the officials, banks started to give loans to the SOEs without consideration of their efficiency (Minxin, 1998, pp. 327-328). Thus, the third generation of government started reforms in the banks and SOEs. The government gave autonomy to banks and made them independent from political influence. In terms of SOEs, the government reestablished stock markets for financing the enterprises. As well as, the government sold and closed small SOEs and remained the owner of the largest enterprises (Moore & Wen, 2006, p. 281). In terms of politics, from 2001 businessmen were allowed to become members of the communist party (Dittmer, 2003, p.110). Another achievement of the third generation was the entrance of the country to the WTO. Due to the membership in the WTO, China was able to attract foreign financial institutions and more FDIs to the country and increase the level of exports (Prime, 2002). The country faced a rapid increase of FDIs in the 1990s and reached its maximum of 6,18 % of the GDP in 1993. However, income distribution inequality increased from 0.45. to 0.48 from the mid-1990s till the beginning of 2000s.

In 2002 Jiang Zemin and third generation of the government transferred the power to the fourth generation under the leadership of Hu Jintao. The fourth generation received

problems of the increasing inequality in society and corruption in the government. Thus, Hu introduced a new goal of the government to develop based on the ‘socialist harmonious society’ (Zheng & Tok, 2007, p. 9). Under this ideology, the fourth generation arrested close to 600,000 people for corruption and violation of party rules. However, corruption remained an important problem in the country. Based on the Corruption Perception Index in 2012, at the end of the fourth generation term, China scored 39 out of 100. Under this index 0 score means a high level of corruption, 100 means no corruption (Xinhua, 2012; Transparency International, 2012). On the other hand, the government was able to decrease the level of poverty in the country. In 2006 trade reached its maximum and represented more than 60% of China’s GDP. Also, in 2006 export of goods and services made 36 % of the GDP, which for that time was \$2,75 trillion.

However, the problem was the fact that the rich part of the population was getting richer faster than the rest of the people. From 2002 till 2007, the income of the poorest 10 percent increased by 46 percent, at the same time, the income of the richest 10 percent increased by 94 percent. Thus, till 2008 Gini coefficient of income inequality in China reached 0.49. According to this coefficient, 0 means perfect equality, whereas 1 means a high level of income inequality in the country. Thus, China experienced the creation of a certain elite capitalist group. Robinson argues that the MNCs played an important part in the rise of the domestic capitalist group. According to Robinson’s analysis, the Chinese capitalist class with the state and institutional elites are interested in greater integration to the global capitalist system. Robinson defines that by 2005 inward stock of FDI to GDP was 36 % and nearly third of the industrial output was generated by transnational corporations. He argues that it is not Chinese firms that are

rising as rivals to Western companies. In fact, TNCs are competing with each other to integrate Chinese companies, because local companies have access to the government to represent interests of the capitalist group into which they are inserted. Robinson defines that in this way national capitalist groups are merging into one transnational capitalist elite and representing class interests in the global economy (Robinson, 2015, pp. 5-10).

In 2012 China faced another transition of power. Xi Jinping became the new leader of the country and represented the fifth generation of the government. In contrast to the previous leaders, Xi's rule is considered close to the style of governance of Deng and Mao. Thus, Xi became the president without term limits, in contrast to Jiang and Hu (Huang, 2018; 1982 Amendments). In addition, in order to strengthen economic development, the government established leading commissions in different spheres. Xi became Chairman of the most influential commissions, thus strengthening his own power (Brown, 2016, p. 28). In terms of economics, the government strengthened the market economy model through simplification of business registration and further limitation of the government influence in the market. Thus, between 2014 and 2016 the number of private companies increased from 3 million to 13.63 million new companies (Xinhua, 2017). In 2018, the number of business entities in China reached more than 18 million. Out of these entities, more than 14 million entities are registered as private businesses, including private limited liability corporations, private shareholding corporations Ltd., private partnership enterprises and private-funded enterprises (NBS, 2019). Also, in 2017 the level of FDIs reached \$ 12, 238 trillion and made 1,37 % of the GDP (WB, 2019). Most of the FDIs are coming from other emerging economies, such as Hong Kong, Singapore, and other Asian countries.

According to Ali and Guo, China is attracting FDIs mostly from Asian countries, because they are export-oriented. In contrast, FDIs from industrialized countries like the US and EU are focused on access to the domestic market (Ali & Guo, 2005, p. 22). Ali and Guo argued that about half of China's trade is focused on the import of goods, assembling and processing, and re-export of the products. Despite the increasing trade of high-tech goods in China, around 80% of the production is handled by foreign affiliates and under the partnership with other Asian firms. As a result, China is not developing its domestic firms but is dependent on international trade and focused on processing of intermediate goods from foreign companies. Thus, through analysis of the role of FDIs we can see that in contrast to other rising countries in the region, China is less autonomous in terms of the market protections. China opened its market to FDIs in parallel weakening position of the domestic firms. For instance, Japan in parallel to foreign investments considered the importance of protecting domestic production of certain goods. In contrast, China is letting foreign firms to create a new market in the country and produce high-value-added products and components needed for the products, leading to stagnating domestic firms (Gilboy, 2004, pp. 36-37). Thus, the rise of China increased international segmentation of the production. But overall, the level of export of China depends on the import (Gaulier, Lemoine, & Unal-Kesenci, 2007, pp. 210-211). In 2017 trade represented more than 37% of China's GDP. Thus, trade became an important part of the Chinese economy (WB, 2019). The percent of export of goods and services made 19,75 % of the GDP in 2017. Even Chinese SOEs are shifting their focus on export of goods and establishing of spare factories abroad. According to the chairman of Chinese home appliance giant TCL, Li Dongsheng, in 2018 around 47 percent of sales of the company came from the overseas market.

According to Li, the rise of the export is a result of the Belt and Road initiative, which became a great platform to increase the export of the company (Xinhua, 2019).

In parallel, Gini coefficient reached 0.46 in 2017. Thus, the problem of the widening gap between poor and rich part of the population remains one of the main problems of modern China. In addition, in 2018 more than 100 billionaires became members of the leading government commissions. In general, reforms in the 1980s led to the creation of the elite group, which consisted of businessmen, which became rich due to first mover advantage, and former government officials that became rich due to their position and influence. From the 1980s, China continues to suffer from a high level of income distribution inequality. Thus, the income of the poor part of society is increasing slower than the income of rich people. In parallel, the rich part of the population became an important part of the country. The government is continuing to simplify business registration process in order to encourage people to create businesses. Thus, as it was suggested by Beeson and Zeng, China may have different ideas about the development of the economy and the role of the state in it. But, China cannot overturn the existing model because it is developing under a certain sort of the capitalist economy (Beeson & Zeng, 2018, p. 1964). China is experiencing problems of income distribution equality and strengthening of the power of a certain elite group, similar to the effects of neoliberalism in other countries. Also, an important part of the Chinese economy is foreign trade, both import and export of goods and services. Most of the Chinese trade is focused on the re-export of imported and processed foreign goods. In parallel, current SOEs are also focusing on international trade as a way to increase their sales. In this case, projects like Belt and Road Initiative are becoming an important platform. In light of these facts, I can say that the Chinese model of

development does not represent an alternative to neoliberalism, but should be defined as neoliberalism with Chinese characteristics. Because China faced rapid economic development due to the adoption of neoliberal policies of deregulation, allowance of privatization and liberalization of the market.

Chapter 7

CONCLUSION

The aim of this thesis is to answer the question of how we can define the economic development path of China. The theoretical framework of the thesis is the transformationalist view on globalization. According to transformationalists, under the process of globalization countries are transforming their economy, politics, and culture by selectively adopting policies of other countries. In contrast to hyperglobalists, transformationalists believe that the states remain the main actor in the international arena. Also, unlike skeptics, transformationalists argue that globalization is a phenomenon affecting all states. Transformationalists underlines that due to the process of globalization, countries are able to improve their domestic economic and political models by implementing certain policies of other countries. Through the implementation of common economic policies, the country can enter the international market and adapt to the globalization process.

As a result of the analysis, we defined that during the leadership of Mao Zedong the economic model of China was a centrally planned economy under a strict authoritarian regime. During that time, China faced stagnation of the economy and industry. People were working in communes and SOEs, whereas the government was the owner of everything. During the 1960s, trade made only 6 % of the GDP, which for that time was around \$ 70 billion (WB, 2019). In parallel to the stagnation of the economy, the country had relatively low-income distribution inequality. Thus, the Gini coefficient

for that time was 0.16 (Jiang, 2003). Starting from the 1980s, the new government implemented new economic policies. The government opened certain coastal regions to attract FDIs. It resulted in rapid economic rise and development of industry in these regions. The main reasons for increasing FDIs in China was cheap labor and a new market with a large number of consumers. In this case, most of the FDIs started to arrive from other rising Asian countries, such as Hong Kong. China became the center for import, assembling and re-export of goods, due to its cheap labor. Although trade became an important part of the Chinese economy, most of the firms are foreign affiliates or have foreign partners and are focused on the processing of intermediate goods. In this case, Chinese economy became dependent on international trade, both export, and import, at the same time weakening the position of its domestic firms (Ali & Guo, 2005, p. 22). In parallel, the government decentralized spheres of agriculture, industry, national defense and education. As a result, people working in the spheres of agriculture and industry gained more independence and now their profit depends on the level of production. Decentralization of national defense led to the decrease of government finance and officers were allowed to open enterprises in order to make profit and import weaponry. In the sphere of education, the central government left finance of the schools to the local governments. As a result, teacher's wages depend on the economic situation of the regions. Thus, rural areas with slow development experienced a brain drain, whereas industrial regions were able to attract the best specialists and create elite schools. Overall, the economic model of China since the 1980s can be defined as a market economy. Due to the reforms, China was able to decrease the level of poverty. The GDP of the country rose dramatically and trade became one of the main reasons behind this increase as China witnessed the increase of both export and import of goods and services. However, the country faced the

problem of income distribution inequality. Thus, the income of the richest 10 percent of the population increased two times faster than the income of the poorest 10 percent of the population. Gini coefficient of income distribution inequality reached 0.46 in 2017 (Sicular, 2013, p. 2).

Three generations of governments continued reforms. Due to the reforms, in 1993 FDIs made 6,18 % of the GDP. In 2006, trade reached its maximum and represented more than 60% of China's GDP, which for that time rose to \$ 2,75 trillion (WB, 2019). All three generations of government supported private sector and the simplification of the business registration. Thus, in 2018 the number of private enterprises reached more than 18 million (NBS, 2019). Both the SOEs and the private sector in China are mainly focused on international trade, on the import, export, and re-export of goods. Due to the rapid growth, the government is supporting further development of international trade. On the one hand, the government is attracting foreign firms with simplification of business registration and other domestic reforms. On the other hand, under the international projects such as the Belt and Road Initiative, the government opened new markets for the strong domestic SOEs. Although, in this way China is giving more opportunities to existing big SOEs, it is criticized for weakening its domestic firms. For instance, China welcomed a large number of FDIs but did not protect its domestic firms and market, as it was done by Japan or Singapore. Thus, China became less autonomous in terms of protection of the domestic market. As a result, China is becoming even more dependent on international trade and foreign firms. Based on the statistics it is clear that Chinese rapid economic rise started when it opened its market to the world in the 1980s (WB, 2019). The economy continued to grow in direct ratio to the decentralization and openness of the market. Also, in 2018 more than 100

billionaires became members of the leading government commissions (Chan, 2018). Thus, these changes contradict the argument of Arrighi that the Chinese economy can be considered as a non-capitalist market economy. Arrighi argued that despite the reforms the government of China is not influenced by the interest of certain elite groups of businessmen. Although the number of businessmen in the party is comparatively small, it is still possible to conclude that they became an important part of the country's economy and politics.

China was able to achieve rapid economic development due to implementing elements of market economy. As a result of the reforms, China became one of the largest economies in the world. Due to rapid economic development, China became an important actor in the international arena. Thus, China plays one of the decisive roles in a number of international institutions. In parallel, the country is launching a number of ambitious initiatives and financial institutions in order to strengthen cooperation with other countries. However, according to the research, China is experiencing wealth distribution inequality. In other words, the gap between poor and rich parts of the population is increasing dramatically. Based on the research it was defined that Chinese economic reforms are similar to the neoliberal policies implemented in the Western countries. Thus, in both cases, governments limited their role in the market and gave more opportunities for the creation of private businesses. Also, international trade became an important part of the economy of China. Both China and Western countries experienced an economic rise due to trade and an increase in the income inequality rate.

However, in the case of China, the government implemented only economic reforms and saved its authoritarian one-party rule. Thus, despite the limited role in the market,

the government actively suppresses any protests against the political system. This inquiry shows that Chinese state transformed its economy in order to adapt to globalization and the international market, but did not change the political system of the country. Thus, the economic rise of China can be considered as “neoliberalism with Chinese characteristics”.

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